For Information	
Public/Non Public*	**Public**
Report to:	**Audit and Scrutiny Panel – for information**
Date of Meeting:	**22nd February 2019**
Report of:	**The Chief Finance Officer**
Other Contacts:	**Head of Finance**
Agenda Item:	**10**

Precept and Budget Reports 2019-20

1. Purpose of the Report

1.1 The attached reports are the strategic financial reports that have been approved by the Commissioner and the precept report has also been agreed by the Police and Crime Panel at its meeting on 7th February.

1.2 These reports are provided to members of Audit & Scrutiny Panel for information, reference and to assist in the panels work throughout the year.

2. Recommendations

2.1 Members are requested to note the reports.

3. Reasons for Recommendations

3.1 Statutory requirement and good financial governance.

4. Summary of Key Points

4.1 The Minister also requires further efficiencies to be met in 2019-20 and these have been set nationally at £50m.

4.2 The reports provided for information are:

- Precept report 2019-20
- Medium Term Financial Strategy (MTFS)
- Reserves Strategy
- Revenue Budget Report 2019-20
- Capital Programme 2019-24
- Capital Strategy
- Treasury Management Strategy

4.3 The precept report shows how the precept has been calculated and the now agreed band charges for 2019-20.

4.4 The MTFS provides two scenarios in relation to potential future funding. Under the most likely option the Force will be able to meet all of its commitments, inflation and pay awards and possibly be able to invest. Under the worst case scenario there is a need for further efficiencies to be delivered of at least £20m.

4.5 The Reserves Strategy shows that the increase in reserves recently will be utilised to meet significant capital expenditure plans over the medium term.

4.6 The Revenue budget is a balanced budget report and builds on recruitment plans in paragraph 4.4 above.

4.7 The Capital Programme provides detail on proposals for 2019-20, with specific plans relating to buildings and ensuring they are fit for purpose. An indicative capital programme to 2021-24 is also provided. But the schemes are subject to full business cases being approved.

4.8 The Capital Strategy is a new requirement to show how we consider the long term, even life cycle of our most significant assets. This brings together stock condition surveys, asset management plans and the need for continued investment in assets to provide for future needs.

4.9 The Treasury Management Strategy provides detail on how the proposed capital programme will be financed.

5. Financial Implications and Budget Provision

5.1 Each of the reports set of the budgetary and financing requirements.

6. Human Resources Implications

6.1 The budget report provides for the recruitment of additional Police Officers.

7. Equality Implications

7.1 None as a direct result of these reports.

8. Risk Management

8.1 These reports set out clear principles to limit any financial or operational risk related to the budget.

9. Policy Implications and links to the Police and Crime Plan Priorities

9.1 This complies with statutory reporting and decision making requirements. These reports also provide evidence of good financial governance.

10. Changes in Legislation or other Legal Considerations

10.1 These reports comply with financial legislation.

11. Details of outcome of consultation

11.1 The details on the consultation with the public on the precept has been included within the Precept Report.

12. Appendices

- Precept report 2019-20
- Medium Term Financial Strategy
- Reserves Strategy
- Revenue Budget report 2019-20
- Capital Programme 2019-24
- Capital Strategy
- Treasury Management Strategy

Nottinghamshire

POLICE & CRIME COMMISSIONER

Precept 2019-20

January 2019

The Police & Crime Commissioner's

Precept 2019-20

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 £970m of which £813m will be for local policing.
- This will be made up of £509m from precept, £143m pension grant and £161m in additional core grant funding.
- Precept flexibility has been provided and therefore Commissioners will be able to increase their council tax precept levels by £24, 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 £509m.
- Increased investment will be made in national priorities, such as police technology and an increase to Counter Terrorism of £280m.
- Commissioners and Chief Constables must continue to reform and improve productivity and efficiency, with a target of £50m for 2019-20.

Introduction

In light of the assumptions and opportunity made available by the Minister the Nottinghamshire Police & Crime Commissioner is proposing a precept increase of £23.94 for the 2019-20 financial year.

This increase in the precept supports the budget report and Commissioners commitment to increase in police officer numbers in our neighbourhoods and in a dedicated robbery team; a further commitment to Rural Crime initiatives and a focus on Knife and Hate Crime prevention activity aimed at the younger people in our communities. The Commissioner also supports Victims Services through formal contracts and grants with the third sector. Further priorities include crime prevention and partnership working, all vital to community safety.

This budget supports fully the Police & Crime Plan for 2019-20.

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.

Firstly, it provides some additional resource to the main police grant, which will assist with the increased cost pressures. This increase is in the core police grant and is therefore likely to continue in future years.

There has also been an additional Treasury Grant for the remainder of the funding gap unintentionally created by changes to the assumptions for the triennial valuation of police pensions. However, this is likely to be a one year grant, therefore creating a gap in future years.

The £12 precept freedom indicated as part of the two year settlement in December 2017 has now been increased to £24. The impact of Brexit is that it is uncertain there will be any additional funding available for Policing within the next CSR period. The Home Office have commented that it expects any future funding gap, from inflationary pressures, to be resourced from continued precept freedoms. Further detail on what impact this will have in Nottinghamshire is provided in the Medium Term Financial Strategy.

Future outlook

The Government settlement will allow for operational plans to increase police numbers and capabilities in new crime areas to continue. 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.

This year a triennial valuation of the Police Pension Fund was undertaken by the Government Actuaries. This has had a significant impact on budget and medium term financial planning. The additional grants for 2019-20 were welcome and cover the anticipated increase in costs. However, one of the grants is not likely to continue and this then becomes an issue for the CSR planned to take place this year.

The Minister has again announced a national efficiency target which will be met through procurement savings and increased shared services for support functions.

Supporting Reports

The Budget Report and the Medium Term Financial Strategy Report on today's agenda details further the plans for 2019-20 and beyond.

The detailed budget for 2019-20, the Medium Term Financial Strategy, the Reserves Strategy, the 4 Year Capital Programme, the Capital Strategy 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 declared 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 impact of Brexit is uncertain. The Treasury focussed on the NHS and its funding requirements. The grants provided to policing for 2019-20 ensure a stable financial position, but this is not guaranteed other than through continued precept freedoms into the future.
- **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. This is now a key indicator of financial sustainability.
- **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 2019-20 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. This is lower than the 5% limit set by the Home Office. The Chief Finance Officer considers that all of the earmarked reserves set out in the Reserves Strategy remain a risk and continues to monitor them and their planned usage. This will continue into the medium term.

  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 £23.94 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 £24 increase on the precept for all Police and Crime Commissioners. The proposed increase of £23.94 is in line with this years change (further detail is provided in **Section 6**).

1. COUNCIL TAX BASE

For 2019-20 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 1.37% overall, slightly less than last year's increase of 1.60%.

Tax base	Band D Properties 2018-19 No	Band D Properties 2019-20 No	Change %
Ashfield	33,140.50	33,542.50	1.21
Bassetlaw	34,231.95	34,794.99	1.64
Broxtowe	33,448.29	33,674.71	0.68
Gedling	36,637.56	37,007.37	1.01
Mansfield	28,905.50	29,219.90	1.09
Newark & Sherwood	38,320.19	38,771.64	1.18
Nottingham City	65,389.00	66,766.00	2.11
Rushcliffe	42,610.10	43,178.50	1.33
Total	312,683.09	**316,955.61**	**1.37**

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 2019-20 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)	**2018-19**	**2019-20**
	£	**£**
Ashfield	32,202	7,664
Bassetlaw	nil	61,944
Broxtowe	42,810	53,810
Gedling	nil	Nil
Mansfield	nil	50,073
Newark & Sherwood	59,043	Nil
Nottingham City	370,813	92,473
Rushcliffe	(35,499)	(99,576)
Total	469,369	**166,388**

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 2019-20 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 and to consult and engage with local people on policing and in setting police and crime objectives.

In fulfilling these requirements, Nottinghamshire OPCC consulted 4,100 residents across the force area representative at CSP level by age gender, ethnicity and deprivation. The consultation was undertaken over four quarterly waves between January and December 2018 as part of the Commissioner's Police and Crime Survey and provided a more stable, robust and representative sample of public opinion on the precept than has ever previously been achieved.

Residents were asked to what extent they supported an increase in the policing precept up to or exceeding the referendum threshold, and if not, their reason for not supporting an increase. Options were based on the revised threshold flexibility provided in December 2017 (£12 cap) and were unable to take account of subsequent government announcements on 13th December 2018 which extended the referendum cap to £24 per year for a Band D property. Questions contained within the Police and Crime Survey in 2019 will be 'future-proofed' to take account of any further flexibilities or restrictions imposed going forward. Wave 6 of the survey will report mid-March and includes revised questions on the additional precept freedoms.

KEY FINDINGS

Results from the Police and Crime Survey 2018 indicate that on balance, there remains strong support for an increase in the council tax precept for policing among local residents. Around 58% of residents support an increase in the council tax precept for policing when those that are unsure are omitted from the profile. This represents remains similar to findings obtained in 2017.

The proportion supporting an increase within the limits of a £12 referendum threshold increased from 40% to 45.4% in 2018, while the proportion supporting a precept rise that substantially exceeds the threshold fell from 19% to 12%. It is not known to what extent the government's decision extend the referendum cap would have had on responses this question, however it is reasonable to assume that a larger proportion of respondents would have supported the higher band increase with the knowledge that a referendum not be triggered.

Across all CSP areas, the proportion supporting an increase in the policing precept exceeds the proportion that does not. Support remains strongest in South Nottinghamshire (64%), but has fallen markedly across Bassetlaw, Newark and Sherwood from 62% to 55%. The proportion of respondents feeling unable to answer the question or requiring more information also increased from 18% in 2017 to 22% in 2018, indicating opportunities for further qualitative engagement.

Personal economic circumstances remain the most common reason for respondents not supporting a rise in the precept for policing, with previous qualitative research highlighting objections to central government cuts to policing more generally. Public awareness of the level of cuts to policing (64%) has remained relatively stable over the last year, with those that are aware of the scale of cuts remaining more likely to support an increase in the precept.

The proportion of respondents that feel funding cuts have affected policing in their area increased by a further 3.3% points in 2018, from 51.1% to 54.4%. This remains significantly higher in Bassetlaw, Newark and Sherwood and Mansfield and Ashfield where 61% and 57% of respondents respectively feel that cuts have affected policing in their area. Reduction in neighbourhood policing presence was the most commonly cited impact across all areas.

KEY RECOMMENDATIONS

The Police and OPCC should consider:

- Maximising use of the Police and Crime Survey to improve targeted communications and engagement on police spending and priorities – particularly among those feeling unsure or that more information is required.

- Providing further detail on proposals for how additional revenue from the precept would be spent and working to ensure public expectations of the service are effectively managed.

- Further proactive engagement with local residents and rate payers to demonstrate how police resources are currently used and what outcomes are being achieved - particularly in less visible areas of safeguarding and public protection.

- Revise Police and Crime Survey question set to account for the revised precept flexibilities announced by central government on 13 December 2018 and ‘future-proof’ the survey against any further changes in precept flexibility afforded in 2019.

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 2019-20 the principles state that, for Police and Crime Commissioners, an increase of more than £24 in the basic amount of council tax between 2018-19 and 2019-20 is excessive.
For 2019-20 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 2019-20 estimated calculation:

$$\frac{\pounds 69{,}517{,}873.94}{316{,}955.61} = \pounds 219.33$$

(£23.94)

This year the Referendum limit has been announced at the time of settlement notifications. It has been set at £24 for 2019-20.

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 2019-20 result in a Police and Crime Precept on the Council Tax of £219.33 for a Band D property, representing an increase of £23.94.

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:

	2018-19 Budget £m		**2019-20 Budget £m**		**Increase/ Decrease £m**	
Budget	193.1		206.3		13.2	(+)
External Income	133.9	(-)	138.6	(-)	4.7	(-)
Collection Surplus	0.5	(-)	0.2	(-)	0.3	(+)
Reserves	2.4	(+)	2.0	(+)	0.4	(-)
Precept	**61.1**	**(-)**	**69.5**	**(-)**	**8.4**	**(-)**
Council Tax Base	312,683		316,956		4,273	
Council Tax Band D	£195.39		£219.33		£23.94	
Council Tax Band A	£130.26		£146.22		£15.96	

The overall Police and Crime Precept to be collected on behalf of the Police and Crime Commissioner for 2019-20 is:

	£m	
Budgeted Expenditure	206.3	(+)
Less income from:		
Police & Crime Grant	126.9	(-)
Legacy Council Tax Grant	9.7	(-)
Pension Grant	2.0	(-)
Collection Fund surplus	0.2	(-)
Net contribution to/from Balances	2.0	(+)
Police & Crime Precept on the Council Tax	69.5	(-)

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

<u>Police & Crime element of the Council Tax</u>

Band	**2018-19 £**	**2019-20 £**
A	130.26	146.22
B	151.97	170.59
C	173.68	194.96
D	**195.39**	**219.33**
E	238.81	268.07
F	282.23	316.81
G	325.65	365.55
H	390.78	438.66

Amounts to be raised from Council Tax in each billing authority area 2019-20:

	Precept amount to be collected £	Collection Fund Surplus/(Deficit) £	Total amount due £
Ashfield	7,356,876.53	7,664.00	7,364,540.53
Bassetlaw	7,631,585.16	61,944.00	7,693,529.16
Broxtowe	7,385,874.14	53,810.00	7,439,684.14
Gedling	8,116,826.46	0	8,116,826.46
Mansfield	6,408,800.67	50,073.00	6,458,873.67
Newark & Sherwood	8,503,783.80	0	8,503,783.80
Nottingham City	14,643,786.78	92,473.00	14,736,259.78
Rushcliffe	9,470,340.41	(99,576.00)	9,370,764.41
Total	**69,517,873.95**	**166,388.00**	**69,684,261.95**

Collection Dates

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

	£
2019	
18 April	6,968,427.00
29 May	6,968,427.00
03 July	6,968,427.00
07 August	6,968,427.00
12 September	6,968,427.00
17 October	6,968,427.00
21 November	6,968,427.00
2020	
02 January	6,968,427.00
06 February	6,968,427.00
13 March	6,968,418.95
	69,684,261.95

8. ROBUSTNESS OF THE ESTIMATES

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

The replenishment of reserves has not progressed as well as it had in previous years this will potentially impact on the delivery of the full capital programme; which requires funding for a significant investment in the estate. Work has already commenced on a new Custody Suite.

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 £23.94 band D increase in Council Tax for 2019-20.

Nottinghamshire

POLICE & CRIME COMMISSIONER

Medium Term Financial Strategy

2019-20 to 2023-24

January 2019

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 2019-20 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. As part of a two year settlement in 2017 the Government announced precept freedoms of £12 for two years to a Band D council tax; provided certain efficiency targets were met nationally relating to procurement. The target set was exceeded and the government has allowed a further precept freedom taking the £12 limit to £24 for 2019-20.

In total the Government have announced an additional £970m for Policing, of which approximately £813m is for local policing and is provided through precept freedoms £509m, plus £143m pension grant, plus £161m additional funding.

This is the final year of the current CSR period and a new CSR is planned to be announced in the Autumn. This will cover the police core grants, additional grant and operational pressures. The long awaited Funding Formula Review is also expected with the Home Office currently thinking this will be complete on time for the funding announcement for 2021-22.

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 £150m+ 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 relatively short period of time.

It may be the case that the CSR itself will not identify any additional funding for policing. That future cost pressures will be met from further precept freedoms. This strategy identifies the level of freedoms that will be possible based upon a real terms increase in expenditure.

The Police & Crime Commissioner has produced a Police & Crime Plan, which has been refreshed to include the feedback and comments made by stakeholders, partners and the public over the last 12 months. The Police & Crime Plan is built upon the following 4 strategic priorities:

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

Funding

The settlement announced for 2019-20 was welcomed in that it provided Nottinghamshire Police with the resources to continue with its programme of officer recruitment and to meet the additional cost pressures it faced (specifically in relation to police pension costs). However, the funding beyond 2019-20 is based upon the assumption that Police Grant will remain flat and additional costs will have to be met through precept increases (including the one off grant from the Treasury). The main highlights are summarised as follows:

1. The amount of core grant funding is to increase by £2.6m to £136.6m
2. An additional Pension Grant of £2.0m for 2019-20. No guarantee beyond this.
3. The Referendum assumptions allow for £24 precept increase in 2019-20 and further freedoms to cover inflation and the Pension Grant in future years.
4. The estimated tax base increase is 1.37% for 2019-20 and 1% in the following years.
5. The cost pressures that we are budgeting for have a negative impact (i.e. pay wards of 2%, inflation is over 2%).
6. The longer term impact of incremental progression relating to the 200+ new police officers (since 2018) will continue to create pressures in the medium term plan.
7. 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:

Table 1a Funding Available Most Likely Scenario	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m
Police & Crime Grant	124.2	126.9	126.9	126.9	126.9	126.9
Council Tax Legacy Grant	9.7	9.7	9.7	9.7	9.7	9.7
Pension grant		2.0				
Precept	61.1	69.5	75.7	79.9	84.2	88.7
Collection fund surplus/(deficit)	0.5*	0.2				
Transfer to reserves **	(2.4)	(2.0)	(2.0)	(2.0)	(1.7)	
TOTAL	**193.1**	**206.3**	**210.3**	**214.5**	**219.1**	**225.3**

* The surplus to be received in 2019-20 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.

Table 1a above assumes that precept freedoms will be allowed as follows:

Band D equivalent	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m
% increase	12.25	7.76	4.57	4.38	4.20
Cash increase £	23.94	17.02	10.79	10.81	10.84

However, there is a possibility that public sector expenditure will be impacted negatively by Brexit. Therefore, it is prudent to consider a worst case scenario for police funding beyond 2019-20, even though this is considered unlikely at this stage.

The scenario below assumes that the Treasury Grant for Pensions will cease after one year and that precept will be limited to the 2% increase it has been subjected to in the past. This is the impact on total funding available:

Table 1b Funding Available Worst Case Scenario	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m
Police & Crime Grant	126.9	126.9	126.9	126.9	126.9
Council Tax Legacy Grant	9.7	9.7	9.7	9.7	9.7
Pension grant	2.0				
Precept	69.5	71.5	73.6	75.9	78.2
Collection fund surplus/(deficit)	0.2				
Transfer to reserves **	(2.0)	(2.0)	(2.0)	(1.7)	
TOTAL	**206.3**	**206.1**	**208.2**	**210.8**	**214.8**

Investment

This Medium Term Financial Strategy allows the Commissioner to continue investing further in Neighbourhood Policing by increasing the number of police officers to 1980 officers and by ensuring 185 PCSO's are provided to support the front line. The current settlement also enables further investment in priorities such as Knife Crime, Violent Crime, Robbery, Victims and Rural Crime. With the success of a dedicated Burglary team being replicated in the creation of a dedicated Robbery Team.

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. At a local level this includes collaboration with the Fire Service and other Local Authorities.

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. 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 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:

Table 2 Efficiencies	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m
Total Efficiencies	**3.0***	**3.0**	**3.2**	**3.2**	**3.2**

- Efficiencies in 2019-20 are already allocated across the relevant budgets in 2019-20 (ie shown net)

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.

Funding Formula Review

As mentioned previously the current funding formula review has been delayed again. The Home office intention is that the new formula will be in place for April 2021, but the delays until post CSR put this date at risk.

Ministry of Justice Funding

The allocation of funding for Victims for 2019-20 is £1,324,943 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 2019-20. 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 has seen an increase in Police Officer numbers and sustainability of PCSO numbers.

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

The replenishment of reserves has been made difficult in 2018-19 with increasing costs relating to the MFSS project to move to Oracle Fusion. The intention is that the replenishment of the reserves will still be achieved by 2022-23. These reserves can then be utilised towards significant building projects within the capital programme.

Table 3 Expenditure Budget	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m
Employee	163.8	169.4	172.6	175.5	178.6
Non-Pay costs	50.9	51.1	53.2	53.7	54.1
Income	(13.4)	(13.6)	(13.8)	(14.1)	(14.4)
Sub-total Force Expenditure	**201.3**	**206.9**	**212.0**	**215.1**	**218.3**
OPCC	5.0	5.0	5.1	5.1	5.1
Total Expenditure	**206.3**	**211.9**	**217.1**	**220.2**	**223.4**

Summary

The summary below is based upon the precept freedoms we are anticipating from 2020-21 onwards. The Home Office have stated that freedoms relating to inflation will be provided in the precept as Police Grant will remain flat. This also assumes that the Treasury Grant loss will be made up from additional precept freedoms.

Most Likely Scenario	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m
Policing					
Net Expenditure	201.3	206.9	212.0	215.1	218.3
Efficiencies	Net above	(3.0)	(3.2)	(3.2)	(3.2)
sub-total	**201.3**	**203.9**	**208.8**	**211.9**	**215.1**
OPCC					
Net Expenditure	5.0	5.0	5.1	5.1	5.1
Total net expenditure	**206.3**	**208.9**	**213.9**	**217.0**	**220.2**
Total Funding Available **Most likely scenario**	**206.3**	**210.3**	**214.5**	**219.1**	**225.3**
Available for investment		1.4	0.6	2.1	5.1

'* 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.

Should changes take place to the Home Office assumption in relation to precept freedoms the worst case scenario would be summarised as follows:

Worst Case Scenario	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m
Total net expenditure	**206.3**	**208.9**	**213.9**	**217.0**	**220.2**
Total Funding Available **Worst case scenario**	**206.3**	**206.1**	**208.2**	**210.8**	**214.8**
Further efficiencies required		(2.8)	(5.7)	(6.2)	(5.4)

Nottinghamshire

POLICE & CRIME COMMISSIONER

Reserves Strategy 2019-20

January 2019

Reserves Strategy 2019-20

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. The Home Office has now indicated that it expects general reserves to be no more than 5% of the net revenue budget.

9. 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.

The Commissioners Plans

10. 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

11. 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.

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

13. Nottinghamshire currently has one of the lowest levels of forecast reserves for policing in England and Wales. Nottinghamshire has never been cash rich and has been underfunded through the current funding mechanism.

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

Types of Reserve

15. 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.

16. 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.

17. 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.

18. 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.

19. 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

20. 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

21. 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

22. 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**.

23. 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.

24. 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.**

25. 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.

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

27. **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

28. 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).

29. 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)).

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

31. **Appendix B** details for each of the earmarked reserves that existed at the start of the 2018-19 financial year and their estimated balance by 1st April 2019.

Details of the earmarked reserves available for use in 2019-20 are given below:

Medium Term Financial Plan (MTFP) Reserve

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

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

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

35. 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.

36. 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.

37. 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.

38. The current level of forecast reserves remains low and if called upon will impact negatively on the financial viability of the force. Reserves and their usage is carefully planned for and monitored throughout the year.

39. Payback of this reserve of £11.5m has commenced earlier than originally anticipated, but has been erratic in achieving the budgeted repayments. This will continue through the medium term period.

Asset Replacement Reserve

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

41. Specifically, a new Custody building at an estimated cost of £20m and a new building on the HQ site to accommodate the former training school, the control room and further service collaboration are being planned for. These are major items of expenditure and it is prudent to create a reserve to part fund such items. This will also alleviate the need to borrow as the borrowing level impact on the CFR.

42. 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

43. 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

44. 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

45. 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 partnership with the NHS and to support further work relating to Sexual and Domestic Violence.

Private Finance Initiative (PFI) Reserve

46. 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

47. 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

48. 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.

49. 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

50. This reserve combines the small amounts of grant income on completed projects where the grant conditions do not require repayment of any balances. Cumulatively they create a sizeable reserve, because they also include the Road Safety Partnership Reserve. The use of this reserve will be subject to evaluation of any risk of repayment.

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.

55. Currently, this reserve has a balance equivalent to a 0.5% change on the net revenue budget.

Night Time Levy

56. The Commissioner utilises 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). Decisions on what projects should be funded are made in partnership with the City Council.

57. The amount of funding through the levy has reduced significantly over the few years it has operated. There is a full programme of projects to utilise the revenue received.

Allard Reserve

58. Following the court case of Allard & Ors v Devon and Cornwall Constabulary this reserve has been created to cover claims from Police Officers handling informants for overtime, when taking off duty calls from informants.

Jointly Controlled Operations (Regional Collaboration) Revenue Reserve

59. 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.

60. 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.

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

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

Procedure for Use of Reserves

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

64. 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.

65. 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

66. 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 Reserves Strategy in January and the out-turn position in June each year.

Risk Analysis

67. 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.

68. 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.

69. 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 forecast reserves is low. It is right and prudent to use the reserves to finance significant capital expenditure, thereby reducing the impact on revenue budgets.

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 2019-20

GENERAL RESERVE

RISK	IMPACT	PROBABILITY	Min £m	Max £m	Proposed for 2019-20 £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 31.03.19 £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	0.600
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	4.731
IT Investment	To provide for investment in new IT software and hardware	In line with the IT strategy	Chief Finance Officer	On-going	1.250
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	0.743
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	3.441
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	0.049

Property Act Fund	Income from the sale of property act confiscations.	To be determined by the Police & Crime Commissioner.	PCC and CFO	Annually	0.196
Drug Fund	For use in reducing drug related crime.	To be determined by the Police & Crime Commissioner and CC.	PCC and CFO	Annually	0.029
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	2.849
Animal Welfare	To set up a scheme for animal welfare on retirement as working animals.	Scheme established.	Chief Finance Officer	During the year	0.018
Tax Base	To iron out fluctuations caused between estimated and actual tax base data..	Annually to balance the budget. Every 3-4 years to finance Single Person Discount Review.	Chief Finance Officer	Annually	1.516
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	0.156
Target Hardening	To be utilised when activity has been identified and agreed with partners.	Once schemes have been approved.	Chief Finance Officer	Annually	0.073
Allard	Once legitimate claims are made and approved for payment	On receipt of claims.	Chief Finance Officer	During the year	1.200
JCO – Jointly Controlled Operations	To provide for unexpected expenditure relating to regional collaboration.	Decisions relating to the use of this fund follow the regional governance arrangements.	EM meeting of the PCC's	Annually	1.246
TOTAL					**18.097**

Appendix C (i)

Tables to show the use of General Reserves

	2018-19	2019-20		2020-21		2021-22		2022-23		2023-24	
	01.04.18 Balance £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	01.04.23 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%***	*3.4%*		*3.4%*		*3.3%*		*3.2%*		*3.1%*	

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

	2018-19	2019-20			2020-21		2021-22		2022-23		2023-24	
Earmarked Reserves	**01.04.18 Actual £m**	01.04.19 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	Use in year £m	31.03.24 balance £m
MTFP	**2.000**	0.600		0.600		0.600	(0.004)	0.596		0.596		0.596
Asset Replacement	**2.731**	4.934	1.800 (4.000)	2.734	2.000 (4.000)	0.734	2.000 (2.000)	0.734	1.700 (2.000)	0.434		0.434
IT Investment	**1.100**	0.850		0.850		0.850		0.850		0.850		0.850
PCC Reserve	**0.733**	0.743	(0.200)	0.543	(0.043)	0.500		0.500		0.500		0.500
Grants & Commissioning	**3.441**	3.441	(0.500)	2.941	(1.000)	1.941		1.941		1.941		1.941
PFI	**0.010**	0.049	0.040	0.089	0.041	0.130	(0.330)	(0.200)	0.042	(0.158)	0.042	(0.116)
Property Act Fund	**0.196**	0.196		0.196		0.196		0.196		0.196		0.196
Drug Fund	**0.027**	0.029		0.029		0.029		0.029		0.029		0.029
Revenue Grants	**2.849**	2.526		2.526		2.526		2.526		2.526		2.526
Animal welfare	**0.019**	0.018	(0.001)	0.017	(0.001)	0.016	0.004	0.020	(0.001)	0.019	(0.001)	0.018
Tax Base	**1.047**	1.516	0.166	1.682		1.682		1.682		1.682		1.682
Night Time Levy	**0.181**	0.156	0.100 (0.256)	0	0.100	0.100	0.100	0.200	0.100	0.300	0.100	0.400
Target Hardening	**0.073**	0.073	(0.073)	0								
Allard	**1.200**	1.200		1.200	(1.200)	0						
Joint Ops	**1.246**	1.246		1.246		1.246		1.246		1.246		1.246
TOTAL	**16.853**	**17.577**	**(2.924)**	**14.653**	**(4.103)**	**10.550**	**(0.230)**	**10.320**	**(0.159)**	**10.161**	**0.141**	**10.302**

Nottinghamshire
POLICE & CRIME COMMISSIONER

Budget 2019-20

NOTTINGHAMSHIRE
POLICE
PROUD TO SERVE

January 2019

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. 2015-16 proved to be the toughest year with efficiency programmes not being delivered and budget omissions being identified during the year. This resulted in £9.3m being required from reserves.

Therefore 2016-17 was always going to be a challenging year, with the need to deliver £12m of efficiency savings. 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 was made.

Efficiencies of £5.5m were achieved in 2017-18 and coupled with additional savings an additional £2m was made available to repay to reserves.

In 2018-19 a balanced budget was set, which included considerable, but very much needed, investment of £3.3m 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

In addition a £2.4 million contribution to replenish reserves was anticipated, this was supported by an efficiency programme of £5.9million.

Budget pressures in the year, especially from externally managed collaboration services (MFSS), and from an increased number of knife crime related incidents identified that the cost of policing would exceed budget. Latest projections suggest that the amount of funding available to contribute to reserves will be much less than expected, and the PCC has already agreed £1.4million of extra support to meet these pressures.

However, with improved medium term budgeting continued efficiency drives and additional funding the outlook remains positive and further investment in front line policing can be achieved alongside rebuilding reserves.

During 2018-9 the PCC has continued to fund safe and effective victim support services. Areas he has developed further during the year have been sexual violence support and non-domestic stalking. Specifically this includes:

- Collaboration with the NHS for new adult and paediatric sexual assault referral centres.
- Co-commissioning an Independent Sexual Violence Advisor to work with survivors of sexual violence and abuse.

- Driving forward work with Clinical Commissioning Groups (CCGs) and local authorities to improve mental health support services for sexual violence survivors. Including ensuring and advising on a specialist sexual violence pathway.
- Successfully bidding to be a Ministry of Justice (MoJ) pilot for devolution of its rape support fund. The MoJ gave recognition to the PCC led work in the development of local therapeutic services.

In 2019-20 the work with CCGs on mental health will continue and it is anticipated that a pilot will be developed to understand further the needs of survivors of non-domestic stalking.

The PCC will be co-commissioning a new substance misuse support service in the City and County following the independent review he has commissioned.

BUDGET 2019-20

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 2019-20	**2019-20 £m**
Core grants & funding	
Police & Crime grant	(126.9)
Council Tax legacy grant	(9.7)
Pensions grant	(2.0)
Sub-total core grants	**(138.6)**
Precept	**(69.5)**
Collection fund (surplus)/deficit	(0.0)
Contribution to Reserves	1.8
Total funding available	**(206.3)**

Final confirmation of grant settlement will be laid before Parliament in February 2019.

The Referendum Limit was announced at the same time as the provisional settlement and is set at a maximum increase of £24.00 for a band D property for 2018-19 this equates to a maximum rise of 12.28%. This level of increase has been assumed in the above figures. 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 the cost of the 80 additional police officers in 2018-19, and a further 40 additional officers in 2019/20.

Along with plans being developed to increase the productivity of supervisory roles and creating more front line Constables, by the end of 2019-20, over 140 additional police officers will have been made 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. The medium term spending plans of the Force show that this will be achieved within the current medium term planning period.

A review of the Reserves Strategy has been 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 these reserves will be able to utilised in the future to support capital expenditure plans. These will deliver investment in new efficient buildings that will be fit for the future, be more energy efficient and will also deliver on-going revenue savings.

1.2 Investment in Service

The increase in precept funding will allow Nottinghamshire to invest further in frontline resources, for example having 40 additional officers working on the front line. This builds on the existing schools early intervention officers, dedicated burglary, robbery and knife crime teams, and working in local neighbourhoods.

In addition £0.5million is being made available to invest in outcomes from the annual departmental assessments (ADAs), which identify changes to demand and improvements to the operational approach to policing. This includes refreshing IT and technical equipment, investment in drone technology and in our Oracle Cloud solution in conjunction with Multi Force Shared Service (MFSS).

Overall this will enable the Chief Constable to recruit up to 1,980 FTE police officers in 2019-20. This will be an increase of 40 extra officers in comparison to 2018-19, and increases the establishment of uniformed officers to over 2,025 individuals.

This will deliver an additional 33 officers into Neighbourhood Policing which provides more local, visible, reassuring resources across all Nottinghamshire. Successive public surveys have pointed to such a need and there is a determination to place as many affordable resources as we can to bolster this area of service delivery. Local Neighbourhood officers patrol, problem solve, investigate crimes and ASB in their area. The specific increase will bolster our responsiveness and the public will see more officers on the beat.

An additional 7 officers will form a force robbery team. Following on from the success of our burglary and knife crime teams, the new robbery team will work closely with the knife crime team. The benefits are to be found in the investigative techniques, surveillance and targeting of those who cause most harm to the public. This new team will operate across the force, responding to intelligence whilst seeking to utilise some of our most intrusive policing techniques.

The Commissioner and Chief Constable also have allocated £150,000 to further augment our knife and hate crime prevention activity aimed at younger people, particularly those who are transitioning from primary to secondary education. The PCC already funds a number of bespoke crime prevention initiatives in the community and the Chief Constable has embedded Schools Officers across the force. The intention is to widen this preventative approach by working with local schools and the third sector at a time when both are under considerable strain. This is a longer term investment aimed at enabling younger people to make good choices as they continue to be over-represented as both victims and offenders in knife related crimes.

1.3 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 2019-20	**2019-20 £m**
Previous expenditure	193.1
Non Pay inflation increases	0.6
Pay increases	6.7
Pension increases	5.6
Changes in demand	2.6
Investment	1.0
Sub-total expenditure	**209.6**
Efficiencies	(3.3)
Total net expenditure	**206.3**

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

2. 2019-20 Budget breakdown

Annex 1 details the proposed expenditure budget for 2019-20. The proposed revenue budget is £206.3m.

Net expenditure budget	2019-20 £m	Efficiencies £m	2019-20 £m	Note
Employee	137.5	2.0	135.5	2.1
Premises	5.8	0.0	5.8	2.2
Transport	5.7	0.0	5.7	2.3
Comms and Computing	9.0	0.3	8.7	2.4
Supplies & services	10.6	0.5	10.1	2.5
Agency & contract services	16.9	0.0	16.9	2.6
Pensions	33.9	0.0	33.9	2.7
Capital financing	4.6	0.3	4.3	2.8
Income	(14.4)	0.2	(14.6)	2.9
Net Expenditure	**209.6**	**3.3**	**206.3**	**Annex 1**

An alternative thematic view of the 2019-20 budget is also detailed at Annex 5.

2.1 Employee related expenditure

Over the last two years the Force has been actively recruiting police officers with 2018-19 moving to a position of 1,940 FTE officers, with an equivalent headcount of over 2,000. The 2019-20 budget provides for continued officer and staff recruitment in order to maintain an effective service. In addition the implementation of the Chief Constables new police officer operating model see police constable numbers rise to 1,980 officers a rise of 40 new front line posts.

This follows on from an increase of 80 new front line posts in 2018-19. This is achieved by the continued delivery of efficiencies and the use of precept freedoms invested by the PCC. The reprioritisation of spend, managed thorough the Annual Departmental Assessments – a business management programme introduced in 2017-18 ensures that new and reprioritised resources meet the Policing Plan. 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. Employee expenditure accounts for approximately 80% of the total expenditure budget.

Annex 2 details the budgeted staff movement between the current year and 2019-20. Annex 3 details the budgeted police officer, police staff and PCSO numbers for 2019-20.

2.2 Premises related expenditure

During the period of austerity the Commissioner's 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 office 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 buildings is included in the capital programme, the main investment being a replacement custody suite, as the current operation become increasingly less fit for purpose. The land has been purchased and building works are expected to commence towards the latter part of 2019-20. A new building project is due to commence for a joint headquarters building with Fire on the current Police Headquarters site. It is not expected that either new buildings will become operational during 2019-20 although future operational efficiencies should be delivered as the purpose built buildings 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 2019-20 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 2019-20 inflation for gas and electricity has been budgeted at 5.0%.

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 of these vehicles is also undertaken by the PFI provider, and the capital programme provides for the replacement of these vehicles over the business cycle.

2.4 Comms & Computing expenditure

This category captures the costs of the computing infrastructure for the force, including hardware, software and licences. Costs of mobile data and investments in agile working provide for a more efficient front line policing presence.

Some of the IT systems that the Force uses are provided through national contracts that the Home Office recharge costs to the Force. Notification from the Home Office sees the total cost of these systems continuing to increase above the rate of inflation. In addition provision has been made for the extension of this National Enablers Programme as the Home Office continues to roll out additional services.

The IT/IS service remains critical to the business of the Force and its ability to deliver future efficiencies. Within the ADA funding it is expected that investment in the core activity will be made during 2019-20.

2.5 Supplies & services expenditure

This category of expenditure captures most of the remaining items such as insurance, printing, communications and equipment. There are also some centrally held budgets for unspecified operational demand, this will provide for the opportunity to react quicker to local issues/hot spots, address demand issues and to provide funding for low value equipment and materials.

For all other expenditure an inflation factor of 2.0% has been applied in 2019-20, unless there was specific contracted inflation.

2.6 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	2019-20 £m
Agency costs	0.0
Collaboration contributions	10.2
Community safety	5.1
Other partnership costs	1.6
Total	**16.9**

The costs associated with the use of agency staff have been much reduced and there use is carefully managed to ensure this represents good value for money. 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 £10.2m for 2019-20. There have been additional cost pressures in this area from the reduction of government grants that EMSOU receive, especially within Serious and Organised Crime. No savings have been assumed within this budget for collaboration or innovation projects.

Analysis of Collaboration contributions	2019-20 £m
EMSOU	3.3
Major crime	0.3
Tactical surveillance unit	0.6
Forensics	1.4
EMOpSS Air Support	0.5
Learning & development	0.8
Occupational health unit	0.5
Legal	0.4
Multi Force Shared Services (MFSS)	2.2
ESN	0.2
Total	**10.2**

2.7 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 has seen the number of medical retirements and the associated costs increasing over time, the 2019-20 budget has been increased by £0.2m reflecting the current trend.

The police pension scheme has been reviewed by the Central Government Actuaries, GAD, which has resulted in an increase in cost of over 8% of the Police Officer salaries budget - an increase of £5.6m to the 2019-20 budget. This has been partially off-set by additional core funding of £2.7million and a specific grant of £2.0million. The additional £0.9m has been absorbed by efficiencies elsewhere in the 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 are unlikely to rise.

2.8 Capital financing

This relates directly to the value of the capital expenditure requiring loan funding in previous years. The proposed capital programmes for 2019-20 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 need and in the pace that capital schemes can be developed. This has resulted in significant spend being carried forward or ultimately not been required - indications for 2018-19 show that changes made to prioritisation and monitoring are beginning to have an impact.

In line with the new approach fewer schemes are proposed in 2019-20, and they are more appropriately apportioned; over several years in some cases. All have active delivery plans that are monitored centrally on a regular basis.

The revenue impact of any capital expenditure is included within this report and the detail financing arrangements are detailed within the Treasury Management Strategy report also on today's agenda.

2.9 Income

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 Use of reserves

There are no plans to use significant reserves in 2019-20.

Strategically it is anticipated that £11.5m will be returned to reserves over the medium term, with £4.0million already achieved. The remainder amount is forecast to be repaid within the current medium term planning period, as shown in the Medium Term Financial Strategy.

2.11 Variation to 2018-19 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 2018-19 and 2019-20.

3. Efficiencies

3.1 2018-19 Efficiencies

As part of the 2018-19 budget the following efficiencies were 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**

3.2 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 for the 2018-19 budget. However due to delays in implementing system changes by MFSS and reduced attrition rates of Officers/Staff coupled with operational demand the Force is likely to overspend its operational budget. This will result in a reduced contribution to be reserves being made available in year, with the PCC already agreeing to a £1.4m reduction in contribution to support the additional MFSS costs.

The Medium Term Financial Strategy of the PCC will be adjusted to reflect the lower level of contribution in 2018-19, this will therefore require increased levels of contribution in the later years of the Strategic Plan.

3.3 2019-20 Efficiencies

As part of the 2019-20 budget the following efficiencies are required in order to set a balanced budget.

Efficiencies 2019-20	£m
Procurement	0.3
Supplies & Services	0.2
Overtime	0.5
Comms & Computing	0.3
Income	0.2
Capital financing	0.3
Total	**1.8**
Ongoing staff pay savings	1.5
Total	**3.3**

3.4 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, or adjusting the period of contribution to reserves.

4. External Funding

There is an assessment of the financial risk in respect of external funding currently provided. In 2019-20, 11 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. In the 2019-20 budget reduced contributions from partners has been absorbed without the need to reduce the core police officer numbers.

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 31 police officers and 7 staff FTE's seconded out of the organisation in 2019-20. This compares with 39 officers and 6 staff FTE's seconded in 2018-19. Overall the impact of changing partner contributions and the return of seconded officers allows for up to 20 additional officers to be redeployed to me front line priorities.

Annex 1

2019-20 Commissioner's Total Budget (£m)

	Force Budget 2019-20 £m	OPCC Budget 2019-20 £m	Total Budget 2019-20 £m
Pay & allowances			
Officer	107.9	0.0	107.9
Staff	43.2	0.8	44.0
PCSO	5.7	0.0	5.7
	156.8	**0.8**	**157.6**
Overtime			
Officer	4.0	0.0	4.0
Staff	0.7	0.0	0.7
PCSO	0.1	0.0	0.1
	4.8	**0.0**	**4.8**
Other employee expenses	2.2	0.0	2.2
Medical retirements	4.9	0.0	4.9
	168.7	**0.8**	**169.5**
Other operating expenses			
Premises related	5.8	0.0	5.8
Transport	5.7	0.0	5.7
Communications & computing	8.7	0.0	8.7
Clothing & uniforms	0.5	0.0	0.5
Other supplies & services	5.6	0.3	5.9
Custody costs & police doctor	1.5	0.0	1.5
Forensic & investigative costs	2.2	0.0	2.2
Partnership payments & grants to external organisations	1.8	4.9	6.7
Collaboration contributions	10.2	0.0	10.2
Capital financing	4.3	0.0	4.3
	46.3	**5.2**	**51.5**
Total expenditure	**215.0**	**6.0**	**221.9**
Income			
Seconded officers & staff income	(2.5)	0.0	(2.5)
Externally funded projects income	(3.9)	0.0	(3.9)
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	(0.2)	0.0	(0.2)

	Force Budget 2019-20 £m	PCC Budget 2019-20 £m	Total Budget 2019-20 £m
Other income	(4.0)	0.0	(4.0)
	(13.3)	**(1.3)**	**(14.6)**
Net use of reserves	**0.0**	**0.0**	**0.0**
Total	**201.6**	**4.7**	**206.3**

Efficiencies as a result of specific plans totalling £3.3m have already been removed from the main budgets.

Annex 2

Workforce Movements 2018-19 Estimated Outturn v 2019-20 Budget

	2018-19 Estimated Outturn* FTE's	2019-20 Budgeted Total FTE's	Movements FTE's
Core Funded			
Police Officers			
Operational	1,212	1,306	94
Intelligence & Investigations	531	500	(31)
Operational Collaborations	114	106	(8)
Corporate Services	35	30	(5)
	1,892	**1,942**	**50**
Police Staff			
Staff	1,156	1,156	0
PCSO	172	185	13
	1,328	**1,341**	**13**
	3,220	**3,283**	**63**
Group Total			
Core	3,220	3,283	63
Police Officers			
-Seconded	33	29	(4)
-Externally Funded	11	10	(1)
Staff			
-Seconded	7	7	-
-Externally Funded	67	67	-
Force Total	**3,338**	**3,396**	**58**
OPCC	**14**	**15**	**1**
	3,352	**3,411**	**59**

***** The estimated outturn as at 31st March 2019.

Annex 3(i)

Core Funded - Workforce Plan FTE's

	2019-20				
	Operational FTE's	**Intelligence & Investigations FTE's**	**Operational Collaborations FTE's**	**Corporate Services FTE's**	**Core Funded FTE's**
Police Officers					
Opening balance*	1,212	531	114	35	**1,892**
Leavers / restructure	(72)	-	-	-	**(72)**
Retirement	(19)	(31)	(8)	(5)	**(63)**
Recruitment	185	-	-	-	**185**
	1,306	**500**	**106**	**30**	**1,942**
Police Staff					
Opening balance*	385	271	214	286	**1,156**
Leavers / restructure	-	-	-	-	**-**
Recruitment	-	-	-	-	**-**
	385	**271**	**214**	**286**	**1,156**
PCSOs					
Opening balance*	169	3	-	-	**172**
Leavers / restructure	(24)	-	-	-	**(24)**
Recruitment	37	-	-	-	**37**
	182	**3**	**-**	**-**	**185**
Opening Balance*	1,766	805	328	320	**3,220**
Movement	107	(31)	(8)	(5)	**63**
Closing Balance	**1,874**	**774**	**320**	**315**	**3,283**

***** Opening balance is the estimated outturn as at 31st March 2019.

Annex 3(ii)

Group (All Funding) - Workforce Plan FTE's

	2019-20					
	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*	**1,892**	33	11	**1,935**	-	**1,935**
Leavers / restructure	**(72)**	-	-	**(72)**	-	**(72)**
Retirement	**(63)**	(4)	(1)	**(68)**	-	**(68)**
Recruitment	**185**	-	-	**185**	-	**185**
	1,942	**29**	**10**	**1,980**	**-**	**1,980**
Police Staff						
Opening balance*	**1,156**	7	68	**1,231**	14	**1,245**
Leavers / restructure	**-**	-	-	**-**	-	**-**
Recruitment	**-**	-	-	**-**	1	**1**
	1,156	**7**	**68**	**1,231**	**15**	**1,246**
PCSOs						
Opening balance*	**172**	-	-	**172**	-	**172**
Leavers / restructure	**(24)**	-	-	**(24)**	-	**(24)**
Recruitment	**37**	-	-	**37**	-	**37**
	185	**-**	**-**	**185**	**-**	**185**
Opening Balance*	**3,220**	39	79	**3,338**	14	**3,352**
Movement	**63**	(4)	(1)	**58**	1	**59**
Closing Balance	**3,283**	**35**	**78**	**3,397**	**15**	**3,411**

***** Opening balance is the estimated outturn as at 31st March 2019.

Annex 4

Variation to the 2018-19 Budget

Police pay & allowances

The £9.4m increase from the 2018-19 budget is largely due to the additional recruits taken in during 2018-19 and the planned recruitment is 185 FTE's in 2019-20 in line with achieving the 1,980 police officer model; pay scale increments; impact of the 2.0% pay award; and the pension contribution change. This has been partly offset by an increased number of natural leavers that has been occurred during 2018-19 and the full year impact into 2019-20; combined with natural leavers at 72 FTE's and 30 year leavers at 63 FTE's included in the 2019-20 budget.

Police staff pay & allowances

The £4.5m increase from the 2018-19 budget largely due to pay awards and increments. The force budgets for a vacancy rate, anticipating that there is a gap between a leaver and a new starter, this gap is now much shorter due to the impacts of changes to departmental structures following the Annual Departmental Assessments – a business management programme introduced in 2017-18.

PCSO pay & allowances

The £0.9m decrease from the 2018-19 budget largely reflects the increased level of natural leavers, either leaving the organisation or seeking to become officers. During 2019-20 there is a planned recruitment of 37 FTE's to offset leavers and achieve the operating model of 185 FTE's.

Overtime

The £0.7m increase from the 2018-19 budget is due to recognition of the current 2018-19 demand whilst also imposing a £0.5m efficiency challenge around this as we see our officer workforce grow and have more resource available.

Medical retirements

The £0.2m increase from the 2018-19 budget is largely due to the increased cost of Police injury pensions.

Premises related

There is a reduction in business rates of £0.1m due to rationalisation of the estate.

Transport

The £0.4m increase from the 2018-19 budget is largely due to the increased contractual charges from the fleet vehicles provided under the Vensons contract of £0.2m and an increase in insurance costs £0.2m.

Communications & Computing

Delays in the ESN project mean that the budget will be re-phased when more information is available, creating a £0.5m reduction. Increases of £0.1m Network Services; £0.5m for mobile information services and £0.1m for software purchases, off-set by efficiency savings £0.2m on other IT costs.

Other supplies & services

£0.6m relates to increases in consultants fees for the implementation of the Command and Control system and to support Information Services with developments expected as part of the roll out of the National Enabling Programme. £0.1m reflects an increase in costs for recovery of vehicles, which will be off-set by a respective increase in income. £0.1m to cover the replacement cycle of tasers and CS gas.

Partnership payments

The £0.1m reduction from 2018-19 budget is due to the cessation of payments to Northamptonshire Police in respect of joint oversight of the MFSS Oracle Cloud project.

Collaboration contributions

The £0.5m increase from the 2018-19 budget is due to increased payments to regional collaborative teams, mainly EMSOU, in light of reduced government funding received and the increased cost of Police Officer pensions.

Capital financing

The £0.2m increase from the 2018-19 budget largely reflects the latest borrowing position with an increase in interest payments of £0.3m; and Minimum Revenue Provision (MRP) of £0.2m offset by an efficiency challenge of £0.3m.

Income

The £0.4m increase from the 2018-19 budget largely reflects £0.3m anticipated ARV income; £0.1m income from property recharges; £0.2m anticipated income from mutual aid; £0.2m income generation training officers under the apprenticeship scheme; £0.1m income from the increase in number of vehicles recovered; £0.1m increase in investment interest. Offset by £0.4m decrease in income from officer/staff secondments and a decrease of £0.5m from external funding.

Annex 5

2019-20 Commissioner's Total Budget – Thematic View (£m)

	2019-20								
	Local Policing £m	Crime & Operational Support £m	Operational Collaborations £m	Corporate Services £m	Seconded £m	Externally Funded £m	Force Total £m	OPCC £m	Total £m
Pay & allowances									
Officer	63.8	31.2	7.3	2.8	2.2	0.7	**107.9**	-	**107.9**
Staff	14.3	8.4	6.8	11.4	0.3	2.0	**43.2**	0.8	**44.0**
PCSO	5.6	0.1	-	-	-	-	**5.7**	-	**5.7**
	83.7	**39.7**	**14.1**	**14.2**	**2.5**	**2.7**	**156.8**	**0.8**	**157.6**
Overtime									
Officer	1.4	2.1	0.9	(0.3)	-	-	**4.1**	-	**4.1**
Staff	0.2	0.2	0.2	0.1	-	-	**0.7**	-	**0.7**
PCSO	0.1	-	-	-	-	-	**0.1**	-	**0.1**
	1.7	**2.3**	**1.1**	**(0.2)**	**-**	**-**	**4.9**	**-**	**4.9**
Other employee expenses	-	-	-	2.2	-	-	**2.2**	-	**2.2**
Medical retirements	-	-	-	4.9	-	-	**4.9**	-	**4.9**
	85.9	**42.3**	**15.2**	**21.1**	**2.5**	**2.7**	**168.7**	**0.8**	**169.5**
Other operating expenses									
Premises related	-	-	-	5.7	-	0.1	**5.8**	-	**5.8**
Transport	0.2	0.2	0.4	4.8	-	-	**5.7**	-	**5.7**
Communications & computing	-	-	-	8.3	-	0.3	**8.7**	-	**8.7**
Clothing & uniforms	-	-	-	0.5	-	-	**0.5**	-	**0.5**
Other supplies & services	0.3	1.0	0.2	4.1	-	0.3	**5.9**	5.1	**11.0**
Custody costs & police doctor	-	0.3	1.1	-	-	-	**1.5**	-	**1.5**
Forensic & investigative costs	-	0.5	1.3	0.3	-	-	**2.1**	-	**2.1**
Partnership payments	0.2	0.3	0.3	-	-	0.6	**1.3**	0.3	**1.6**
Collaboration contributions	-	0.6	5.5	4.2	-	-	**10.2**	-	**10.2**

	2019-20								
	Local Policing £m	Crime & Operational Support £m	Operational Collaborations £m	Corporate Services £m	Seconded £m	Externally Funded £m	Force Total £m	OPCC £m	Total £m
Capital financing	-	-	-	4.3	-	-	**4.3**	-	**4.3**
	0.7	**2.9**	**8.7**	**32.3**	**-**	**1.3**	**45.9**	**5.4**	**51.4**
Total expenditure	**86.1**	**45.0**	**23.9**	**53.3**	**2.5**	**4.0**	**214.6**	**6.3**	**220.9**
Income	**(0.6)**	**(1.1)**	**(1.0)**	**(4.2)**	**(2.5)**	**(3.9)**	**(13.3)**	**(1.3)**	**(14.6)**
Net use of reserves	-	-	-	-	-	-	**-**	**-**	**-**
Total	**85.5**	**43.9**	**22.8**	**49.1**	**0.0**	**0.1**	**201.3**	**5.0**	**206.3**

The Nottinghamshire Office of the Police & Crime Commissioner

Capital Programme

2019-24

NOTTINGHAMSHIRE POLICE
PROUD TO SERVE

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 as well as other prudential and treasury indicators. With major building works planned over the coming years, capital projects for lower value and shorter life assets will be considered for revenue financing.

2. Capital Programme 2019-20

This programme is built upon current priorities within the Force. Ensuring buildings 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 £2,279k slippage from 2018-19 into 2019-20. This will be re-assessed and confirmed at the end of the financial year.

The detailed programme, proposed by the Force, for 2019-20 is provided in **Appendix A**.

The proposed programme is summarised in the table below:

Capital category	**2019-20 £k**	**2020-21 £k**	**2021-22 £k**	**2022-23 £k**	**2023-24 £k**
Estates	8,157	22,387	6,117	2,600	2,600
IT	3,110	2,170	700		
Other	60	95	200	240	285
Total	**11,327**	**24,652**	**7,017**	**2,840**	**2,885**

Identified within the capital programme is the continuation of the new custody suite building, this new build will address all of the associated issues and costs of the existing centrally located Bridewell Suite. Building surveys and reports produced in 2014 as well as a business case in January 2017 highlighted that the existing Bridewell was in need of major refurbishment. It did not, and could not comply with the then Home Office standards and recommendations (which have since been succeeded by even more stringent criteria). Therefore, the decision was taken that a new custody suite was required. The new build will be state of the art and will meet Home Office guidance and will be built as a 25 year plus function. The efficiencies it will deliver are associated with risk management and the effective handling of detainees.

A new build is being developed on the HQ site to accommodate the control room, training and collaboration. This work will provide further efficiencies for the estate. Work is in its infancy and a detailed business case is due shortly.

The command and control system has been in place for 15 years. The Force has been issued with an end of life notice by the current supplier, who has placed the system on a reasonable endeavours level of support. The current system requires replacement with a modern and future proof system, allowing for virtualisation and the possibility of a cloud based deployment as well as development, to make the most of the proposed ESN features.

3. Medium Term Capital Programme

It is normal practice to provide an indication of the capital programme for 2019-20 to 2023-24. 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 be funded from revenue. This will allow the major building works identified to be funded through the Treasury Management Strategy.

4. Financing

Financing is included within the Treasury Management Strategy included elsewhere within this agenda.

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 represent a charge for depreciation and use of asset. Depreciation is allocated over the life of the asset.

The Revenue budget for 2019-20 includes the estimated Minimum Revenue Provisions (MRP) based on previous years' expenditure. The cost of borrowing is provided for within the revenue budget.

Capital Programme 2019-20 to 2023-24

Appendix A

Suggested Priority	Project Name	Asset Type	Budget 19-20 £k	Budget 20-21 £k	Budget 21-22 £k	Budget 22-23 £k	Budget 23-24 £k
1	CB – New Custody Suite	Estates	6,430	6,430	750		
1	CB – HQ New Build	Estates	352	11,907	2,567		
1	CB – Custody Improvements	Estates	100	100	100	100	100
1	CIT – ANPR Camera Project	IT	20	20			
1	CIT – ESN (Essential Services Network – Airwave Replacement)	IT		700	700		
	TOTAL PRIORITY 1 PROJECTS		**6,902**	**19,157**	**4,117**	**100**	**100**
2	CB – Various Building Improvement, Renovation & Conversion works	Estates	1,250	2,950	2,200	2,500	2,500
2	CB – SARC Redevelopment	Estates		1,000	500		
2	CB – Community Rehabilitation Companies Renovations	Estates	25				
2	CIT – Technology Services Refresh and Upgrades	IT	1,090	1,450			
2	CIT – Command & Control System	IT	2,000				
2	CO – Vehicle & Equipment Replacement Programme	Other	60	95	200	240	285
	TOTAL PRIORITY 2 PROJECTS		**4,425**	**5,495**	**2,900**	**2,740**	**2,785**
	TOTAL PRIORITY 1 & 2 PROJECTS		**11,327**	**24,652**	**7,017**	**2,840**	**2,885**

The Nottinghamshire Office of the Police & Crime Commissioner

Capital Strategy

2019-20

Contents

Capital Strategy 2019-20

Section A Introduction

1. Purpose

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with desired outcomes and take account of stewardship, value for money, prudence, sustainability and affordability.

The Capital Strategy is a key document for the Police and Crime Commissioner (PCC) and Nottinghamshire Police and forms part of the authority's integrated revenue, capital and balance sheet planning. It provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the delivery of desired outcomes. It also provides an overview of how associated risk is managed and the implications for future financial sustainability. It includes an overview of the governance processes for approval and monitoring of capital expenditure.

Throughout this document the term Group is used to refer to the activities of both the PCC and the Force.

2. Scope

This Capital Strategy includes all capital expenditure and capital investment decisions for the Group. It sets out the long term context in which decisions are made with reference to the life of projects/assets.

Although the Group has its own Capital Strategy and Medium Term Capital Plan, the natural drivers that encourage national, local and regional forces to collaborate, such as cost and resource sharing, along with structured collaborations and national plans, can have a significant influence on local decision making.

One of the focal points therefore of the Capital Strategy is to acknowledge regional and national partnership working, both with other Forces and in a the wider context of engagement with other Emergency Services, Local Authorities and the Crown Prosecution Service, to improve overall service to the public.

Wherever possible and subject to the usual risk assessment process, the Group will look to expand the number of capital schemes, which are completed on a partnership basis, and continually look for areas where joint projects can be implemented, in support of this initiative:

3. Capital Expenditure

Capital expenditure is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing fixed asset. Fixed assets are tangible or intangible assets that yield benefits to the Group generally for a period of more than one year, (e.g. land and buildings, IT, business change programmes, equipment and vehicles). This is in contrast to revenue expenditure, which is spending on the day to day running costs of services, such as employee costs and supplies and services.

The capital programme is the Group’s plan of capital works for future years, including details on the funding of the schemes.

Capital expenditure is a major cost and as a result it is necessary to ensure that key programmes of work requiring capital expenditure have been properly identified, evaluated and prioritised.

4. Capital vs Treasury Management Investments

Treasury Management investment activity covers those investments, which arise from the organisation’s cash flows and debt management activity, and ultimately represent balances, which need to be invested until the cash is required for use in the course of business.

For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Annual Treasury Management Strategy.

The CIPFA Treasury Management Code recognises that some local authorities are entitled to make investments for policy reasons outside of normal treasury management activity. These may include service and commercial investments. However, like all police forces, the Group does not have a General Power of Competence, which gives councils the ‘power’ to do anything an individual can do provided it is not prohibited by other legislation. As such, the Group is prevented from entering into commercial investment activities.

5. Links to other corporate strategies and plans

The PCC produces his Police and Crime Plan every four years, which is refreshed annually and the Chief Constable produces a Force Management Statement.

To support these overarching documents a number of interrelated strategies and plans are in place, such as the Medium Term Financial Strategy, Capital Strategy, Medium Term Capital Plan, Asset Management Plan, Treasury Management and Annual Investment Strategy, People Strategy/Workforce Plan and the Environmental Strategy.

The operation of these strategies and plans is underpinned by the Code of Corporate Governance which includes Contract Procedure Rules and Financial Regulations. Procedure manuals are considered best practice at Force level.

Procurement is the purchase of goods and services. The Group has a Procurement Department that ensures that all contracts, including those of a capital nature, are legally compliant and best value for money.

It is essential that all procurement activities comply with prevailing regulations and best practice as set out in the Code of Corporate Governance, which includes Contract and Financial Regulations. Guidance on this can be sought from the Procurement team.

The main aim is to hold 'value for money' as a key goal in all procurement activity to optimise the combination of cost and quality.

Capital resources should be directed to those programmes and projects that optimise the achievement of these outcomes. The following processes are designed to ensure this happens.

Section B Governance

6. Asset Management

Good asset management is based upon having detailed condition records for all assets. This enables

- Whole Life Appraisal (WLA) to be undertaken for each asset – liaise with OPCC Treasury Management Accountant on Estate assets with a value over £0.600m to ensure component elements are clearly identified

- Compilation of Capital Programme and Plan

- Identification of long term risks

The need for a capital scheme will typically be identified through one or more of the following processes and be submitted on standardised forms.

- Senior Stakeholders will submit business cases that support delivery of local, Force, Regional or National Objectives. These plans must be sponsored by a member of the Chief Constables Management Team (CCMT) and must identify the requirement, rational, deliverables, benefits, links to Force and/or PCC Priorities, and costs in terms of both Capital investment and on-going revenue consequences.

- Reviews of existing capital projects will identify that budget variances are likely to occur and that either more or less funding is likely to be required. Full rationales are required to justify variances and are submitted as per service delivery bids above.

- The other key strategies will inform the capital strategy and a capital scheme bid may arise from that, for example the Force Asset Management Plan, which rationalises and develops the operational buildings and estates, and may require, either sale or purchase or redevelopment of an element of the estate.

Where investment needs are identified these are reported in a business case.

See **Appendix A** for a diagram of process

7. Business Case

A standard template should be used for all business cases. This should be completed in detail for projects with a duration of less than 1 year as well as initial year of multi-year schemes. Start dates, project duration and revenue implications should be clearly identified.

Payments for capital schemes often occur over many years, depending on the size and complexity of the project. Therefore, estimated payment patterns are calculated for each project so that the expected capital expenditure per month/year is known. This is called a cash flow projection or budget profiling.

The approval of a rolling multi-year capital programme assists the Group stakeholders in a number of ways:

- It allows the development of longer term capital plans for service delivery.
- It allows greater flexibility in planning workloads and more certainty for preparation work for future schemes.
- It allows greater integration of the revenue budget and capital programme.
- It also matches the time requirement for scheme planning and implementation since capital schemes can have a considerable initial development phase.

8. Capital Programme – 1 to 5 years

The Capital programme will summarise the capital expenditure of projects over a five year period. This will be less accurate in the later years where only outline information may be currently available. All projects will be supported through business cases.

Business cases should be as detailed as possible for each project over the life of the project.

Where projects are being identified early in the programme, an outline business case with estimated costs, needs to be compiled for the programme beyond year one.

9. Capital Plan – 5 to 10 years

The Asset Management Plan and condition surveys should detail what expenditure will be required on existing assets over the longer term. This should be identified in the longer term plan, with more detail being provided as these items progress in the Capital Strategy and programme.

10. Long term Risks – over 10 years

Again the Asset Management Plan and condition surveys should identify long term requirements for capital expenditure. This should also link to other key strategies, such as the Police and Crime Plan and people strategy. The main objective would be to identify long term risks (e.g. Clasp building with a life of 25 years). This should be revised and kept up to date.

11. Force Internal Application Process

At any given time the Force is committed to rolling medium term revenue & capital plans, that usually extend for 4 years and beyond. The plans are drawn up, reassessed and extended annually. If required these are re-prioritised to enable the Force to achieve the aims and objectives, established in the PCC's Police and Crime Plan and commitment to support national drivers, such as the National Policing Vision for 2025.

Key focuses of the Capital Programme:

- To ensure the property estate remains fit for purpose, identifying opportunities to streamline assets and develop the estate infrastructure; maintaining core sites, improving core training facilities and progressing the Asset Management Plan.

- To ensure provision is made for IT & Business Change Technology to maintain and develop the existing infrastructure and invest in the core technologies required to provide innovative digital policing services.

  The maintenance and replacement of other core assets where necessary, (e.g. vehicles and communication infrastructure).

- The plans acknowledge the constrained financial position of the Force and maximise both the available financial resources and the capacity that the Force has to manage change projects.

The Capital Plan provides the Force infrastructure and major assets through capital investment, enabling the Force to strengthen and streamline core assets and systems, and provides the framework for delivering innovative policing with a lower resource profile.

For any particular budget setting year, the process for the Group starts during the summer of the preceding year with the Force Corporate Development Department and other key Stakeholder Groups. The Group other Collaborative Forces commence earlier on an agreed time table and Communication Strategy to be adopted to secure investment requirements and ideas from the Stakeholder Groups covering the key criteria such as:

- Achievement of high level agreed Local, Regional or National outcomes;
- Maintenance of the essential infrastructure;
- Development of improved capability
- Adjustments to existing prioritised plans/projects.
- Rationalisation & modernisation of estates
- Carbon management & Health and Safety
- Invest to save schemes.

Based on an agreed timetable, Business Cases for consideration will be submitted into Force Corporate Development Department for both the Group and collaborations in order that a joined up approach is made to capital investment.

A deminimis level of £0.02m is currently in place and must be adhered to.

Vehicle purchases must be made in bulk.   One-off purchases of new or second-hand vehicles will be a cost to revenue.

Capital will fund new IT systems over £0.1m (below this amount will be considered if grant funded). All system upgrades will be funded by revenue.

Over the autumn, the business Cases will be subjected to the Forces Prioritisation Matrix, this provides a score for the project that considers key factors (eg statutory need, police and crime plan, risk) in assessing the importance of the bid. The bids will then be presented to and extensively reviewed by the Futures Board, before being scrutinised and recommended by the Chief Officer Team.

Business case prioritisation is achieved by initially applying an agreed Force Prioritisation Matrix to the bid. The matrix reflects the Chiefs Constables force commitment, operational priorities, risk profile, benefits and costs and provides an indicative score for each business case.

The Matrix will be adjusted, if required, prior to submission of business cases to reflect any changes to force prioritisation.

The Prioritisation Matrix score is subject to extensive review by Chief Officers and senior staff over the course of the budget process, to ensure prioritisation is effective and that any appeals are given due consideration.

Typically, a costed draft Capital Plan will then be presented to the PCC late autumn, providing views on affordability and potential funding issues and options. It is imperative that the Head of Finance updates the CFO on all changes made prior to the final version.

A final version of the Capital Plan and Programme will be presented to the PCC in the following February for approval, reflecting the known funding position and any further developmental work on the plan.

The formal PCC approval, agrees the capital budget for the following year, and acknowledges the intention for planning purposes of the remaining years of the Capital Plan. Until this approval is given spending cannot commence.

12. Office of the Police and Crime Commissioner

12.1. Affordability and Financial Planning

Prior to submission of the draft Capital Programme in late autumn, a significant amount of financial work will have already been undertaken on Revenue budgets. This work will have identified potential financial position for the Force in respect of the coming medium term, taking into account core known information and stated assumptions.

The revenue financial position is influenced by inflation, committed growth requirements, forecast productivity and efficiency savings, assumptions around grant and council tax funding and any other information introduced during the budget process.

The Capital Programme and the Capital Plan will include forecasts on capital expenditure, revenue consequences of capital programmes and the requirement to financially support capital investment, either through direct financing or borrowing.

12.2. Capital Sustainability

The financial position of the Group has been changing. For many years the Group has benefitted from substantial capital receipt reserves, supported by the sale of operational buildings or from revenue reserves assigned to capital investment.

As we move forward through the next 4 years the picture moves away from funding of the capital programme through use of accumulated receipt reserves and into a position of funding through either direct revenue financing or borrowing for specific projects.

Beyond the next 4 years almost all capital investment will have to be funded from revenue contributions. This is expected to be during a continued period of revenue pressure and uncertainty.

The Group's Strategy is therefore to invest in core infrastructure now that will not only offer overall service improvements to the public, but also maximise revenue savings into the future through more efficient and mobile use of police personnel, enabled by improved Information Technology systems and other core infrastructure for example, connected vehicle fleet and building assets.

Its investment strategy will also be influenced by and take account of National visions for policing, Regional and Local priorities.

12.3. Approval Process

As indicated, the PCC receives the updated Capital Programme supported by a longer term capital plan, in February each year as part of the overall suite of budget reports.

The PCC approves the overall borrowing levels at the budget meeting in February each year as part of the Treasury Management Report. The taking of loans, if required, then becomes an operational decision for the CFO who will decide on the basis of the level of reserves, current and predicted cashflow, and the money market position whether borrowing should be met from internal or external sources.

Once the PCC has approved the capital programme, then expenditure can be committed against these approved schemes subject to the normal contract procedure rules and the terms and conditions of funding.

Whether capital projects are funded from grant, contributions, capital allocations or borrowing, the revenue costs must be able to be met from existing revenue budgets or identified (and underwritten) savings or income streams.

Following approval by PCC the capital programme expenditure is then monitored on a regular basis.

12.4. Funding Strategy and Capital Policies

This section sets out the Group policies and priorities in relation to funding capital expenditure and investment.

12.4.1. Government Grant

The Commissioner only receives limited financial support from the Home Office; annual capital grant is currently less than £0.8m per annum. This grant is not hypothecated and can be carried forward if not spent in the year of receipt.

Specific capital grants may be received for agreed capital works undertaken by those regional policing units for which the Group is the lead force or for themselves only.

12.4.2. Capital Receipts

A capital receipt is an amount of money which is received from the sale of an asset. This cannot be spent on revenue items.

These capital receipts, once received, are used to finance short life assets in future capital programmes. Unfortunately, the pool of assets available for sale is rapidly declining.

All sale receipts from assets originally purchased by capital funding are capital receipts even when below the £0.01m value set by statute.

12.4.3. Revenue Funding

Recognising that the pool of assets available for sale is declining, direct revenue funding (DRF) is seen as a sustainable funding alternative.

12.4.4. Prudential Borrowing

Local Authorities, including the Police, can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing costs are not supported by the Government so the Group needs to ensure it can fund the repayment costs. The Group’s Minimum Revenue Provision (MRP) Policy sets out a prudent approach to the amount set aside for the repayment of debt.

Due to the on-going debt charges (i.e. MRP and external interest charges) the CFO will consider external borrowing and any potential alternative source for financing the capital programme.

12.4.5. Reserves and balances

Unspent capital grant and capital receipt monies can be carried forward in the Balance Sheet until they are required to fund the capital programme.

The Group also uses money held in earmarked revenue reserves to help fund capital expenditure, most notably the Asset Replacement Reserve.

12.4.6. Third party contributions

When working with others on a capital project, and the Group is the lead, total cost of expenditure will be recognised. Any contribution towards financing will be clearly identifiable.

12.4.7. Leasing

The Group may enter into finance leasing agreements to fund capital expenditure. However, a full option appraisal and comparison of other funding sources must be made and the Department must liaise with the Head of Finance to ensure that this is costed accurately. The CFO must be satisfied that leasing provides the best value for money method of funding the scheme, before a recommendation is made to the PCC.

Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the authority's borrowing.

Section C Management

The PCC owns all assets and has given legal consent for the Chief Constable to manage them on a day to day basis, on his behalf.

The Head of Finance collates the information for the capital plan. The capital programme is managed by the project managers and the Head of Finance monitors and reports on the expenditure regularly, to the Chief Constable's Management Team who, collectively maintain oversight of planned expenditure.

The Chief Finance Officer is responsible for developing and then implementing the Treasury Management Strategy, including the Annual Investment Strategy, along with the completion of all capital spend and funding related returns completed for central government and other regulatory bodies.

During the budget preparation process the Chief Constable's Management Team take a strategic perspective to the use and allocation of the Group's capital assets in planning capital investment. They receive reports on proposed capital projects and make formal recommendations to the PCC during the development of the capital programme.

Having approved the capital plan and the capital programme in February each year the PCC formally holds the Chief Constable to account for delivery of capital projects.

Detailed discussions are held with Collaborative Partners to agree as far as possible Force prioritisation and understand affordability risks and issues on joint ventures.

Once the list of key capital priorities have been identified, in preparing capital project proposals, consideration should be given to the key criteria identified earlier in the year.

13. Individual Project Management

Capital Projects are subject to high levels of scrutiny. This varies dependant on the type of project and may be influenced by size or by the makeup of regional involvement. Each Project will have a Project Manager and potentially a team to implement the project.

Typically projects will have a dedicated Project Board, which, if part of a larger programme may sit under a Programme Board. Programme and Project Boards will have a Senior Responsible Officer or Chair Person.

For those business change programmes where a formal Board has been established, a detailed scheme monitoring report is presented to each Board meeting.

Detailed oversight is further provided through IT Project Management Office, Strategic Estate Groups and Futures Board.

Regional Projects or Programmes may also report into Regional Boards.

14. Monitoring

The Head of Finance will submit capital monitoring reports to both Chief Constable's Management Team and the PCC on a regular basis throughout the year. These reports will be based on the most recently available financial information. These monitoring reports will show spending to date and compare expenditure with the approved capital budget.

For proposed in-year amendments to the capital programme, the department in consultation with the Head of Finance will prepare a business case for submission to the Futures Board and then to the PCC for consideration and approval, including details on how the new scheme is to be funded: such as revenue, grants and/or savings from current capital programme. Additional capital funding will only be considered in exceptional circumstances approved by CFO and PCC.

Monitoring reports are presented to the PCC at either, the Strategic Resources and Performance meeting, or as part of the decision making process if timing of the meeting is not aligned.

15. Performance Management

Clear measurable outcomes should be developed for each capital scheme. After the scheme has been completed, the Chief Constable is required to check that outcomes have been achieved.

Post scheme evaluation reviews should be completed by the Group for all schemes over £0.5 million and for strategic capital projects.

Reviews should look at the effectiveness of the whole project in terms of service delivery outcomes, design and construction, timescales being met, expenditure etc. and identify good practice and lessons to be learnt in delivering future projects.

16. Risk Management

Risk is the threat that an event or action will adversely affect the Group's ability to achieve its desired outcomes and to execute its strategies successfully.

Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.

The aim is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties.

Each project should maintain its own risk assessments and monitor these throughout the project term. Where significant risks arise these should be evaluated to see if they should be escalated to the corporate risk register.

To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored.

It is important to identify the appetite for risk by each scheme, especially when investing in complex and costly business change programmes.

The corporate risk register sets out the key risks to the successful delivery of the Group's corporate aims and priorities and outlines the key controls and actions to mitigate and reduce risks, or maximise opportunities.

The Group accepts there will be a certain amount of risk inherent in delivering the desired outcomes of Police and Crime Plan and will seek to keep the risk of capital projects to a low level whilst making the most of opportunities for improvement. Where greater risks are identified as necessary to achieve desired outcomes, The Group will seek to mitigate or manage those risks to a tolerable level.

The Chief Finance Officer will report on the deliverability, affordability and risk associated with this Capital Strategy and the associated capital programme. Where appropriate they will have access to specialised advice to enable conclusions to be reached.

- **Credit Risk**

  This is the risk that the organisation with which we have invested capital monies becomes insolvent and cannot complete the agreed contract. Accordingly, the Group will ensure that robust due diligence procedures cover all external capital investment. Where possible contingency plans will be identified at the outset and enacted when appropriate.

- **Liquidity Risk**

  This is the risk that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. This is also the risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes. Appropriate interventions will occur as early as possible.

- **Interest Rate Risk**

  This is the risk that interest rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Interest rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

- **Exchange Rate Risk**

  This is the risk that exchange rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Where relevant, exchange rates will be reviewed as part of the ongoing monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

- **Inflation Risk**

  This is the risk that rates of inflation will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates of inflation will be reviewed as part of the ongoing monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

- **Legal and Regulatory Risk**

  This is the risk that changes in laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into capital expenditure or making capital investments, the Group will understand the powers under which the investment is made. Forthcoming changes to relevant laws and regulations will be kept under review and factored into any capital bidding and programme monitoring processes.

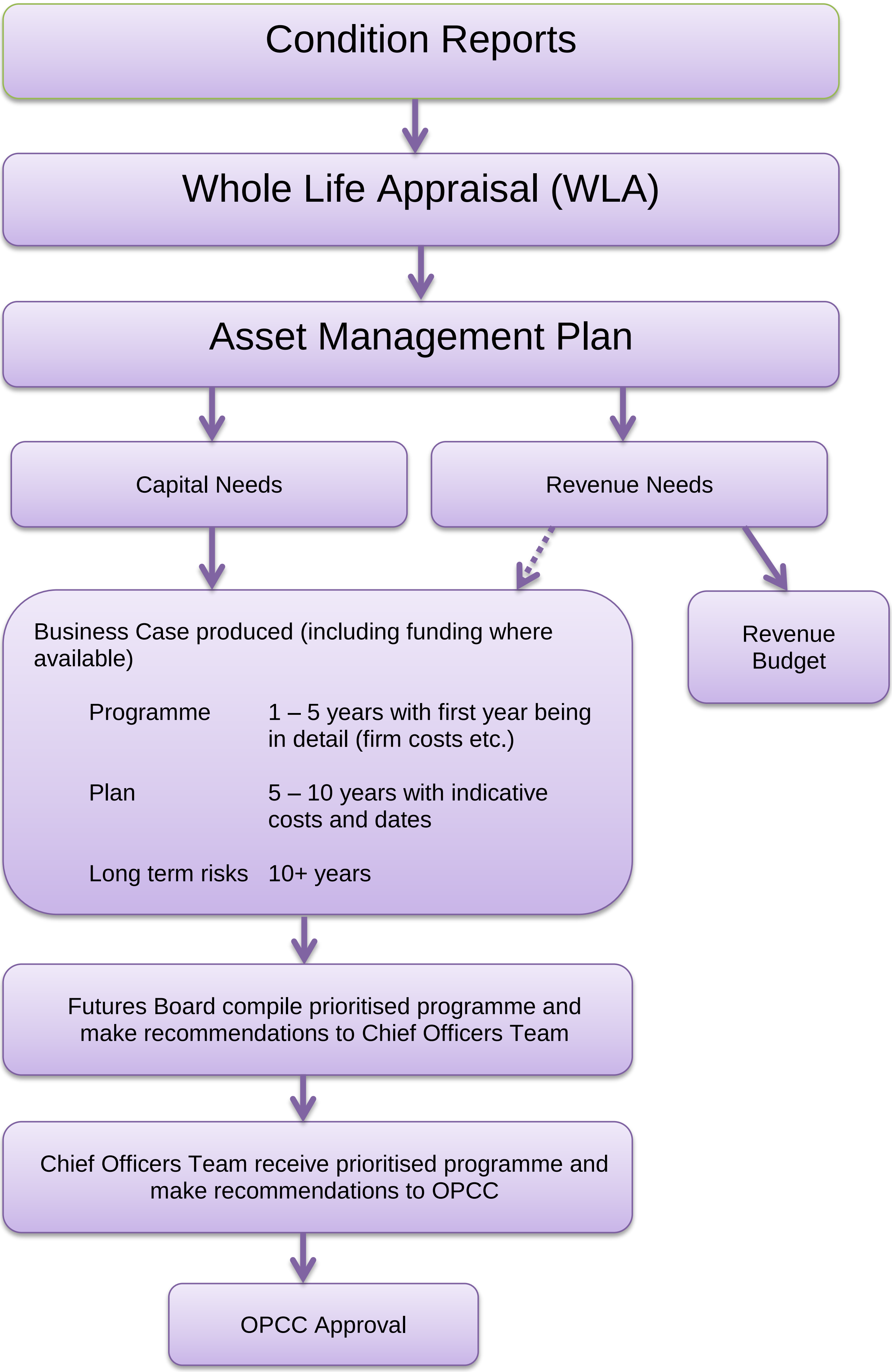
- **Fraud, Error and Corruption**

  This is the risk that financial losses will occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the agreed Code of Corporate Governance. The Group has a strong ethical culture which is evidenced through our values, principles and appropriate behaviour. This is supported by the national Code of Ethics and detailed policies such as Anti-Fraud and Corruption and Declaration of Interests.

17. Other Considerations

Capital Schemes must comply with legislation, such as the Disability Discrimination Act, the General Data Protection Regulations (GDPR), building regulations etc.

Appendix A


Condition Reports
Whole Life Appraisal (WLA)
Asset Management Plan
Capital Needs
Revenue Needs
Business Case produced (including funding where available)
Programme
1 – 5 years with first year being in detail (firm costs etc.)
Plan
5 – 10 years with indicative costs and dates
Long term risks
10+ years
Revenue Budget
Futures Board compile prioritised programme and make recommendations to Chief Officers Team
Chief Officers Team receive prioritised programme and make recommendations to OPCC
OPCC Approval

The Nottinghamshire Office of the Police & Crime Commissioner

Treasury Management Strategy

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2019-20

Contents

1. INTRODUCTION

1.1 Background

The Nottinghamshire Office of the Police and Crime Commissioner (NOPCC) 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 NOPCC 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 NOPCC risk or cost objectives.

The responsible officer for treasury management is theChief 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:

- A summary of the capital plans (see also the strategy report), prudential indicators and borrowing plans
- The 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
- The investment strategy (the parameters for managing investments)
- Information regarding non treasury investments such as property

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.

A detailed capital strategy report – contained in a separate report

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 2019-20

The strategy covers two main areas:

Capital issues

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

Treasury management issues

- current treasury position
- treasury indicators which limit the treasury risk and activities of the NOPCC
- prospects for interest rates
- borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy

- creditworthiness policy
- policy on use of external service providers
- Policy on use non financial investments

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance. The Prudential Code has been recently updated and has been fully adopted .

1.4 Treasury management consultants

NOPCC uses Link Asset Services as its external treasury management advisors.

NOPCC 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 advisors.

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.

1.5 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 formally delivered in March 2014, and the Chief Financial Officer to the Commissioner (CFO) has provided subsequent updates, after attending relevant seminars during the year. The officers involved in treasury management also receive training from Link Asset Services.

2. THE CAPITAL PRUDENTIAL INDICATORS 2019-20 to 2023-24

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. Full information regarding capital expenditure plans is included within the separate capital strategy report and capital programme report.

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	2017-18 Actual £m	2018-19 Forecast £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Capital Programme	**4.037**	**11.965**	**11.327**	**24.652**	**7.017**	**2.840**	**2.885**
Financed by:							
Capital Receipts	0.000	(3.886)	(2.412)	(1.871)	(0.563)	0.000	0.000
Capital Grants & Contributions	(2.794)	(0.793)	(0.758)	(0.394)	(0.295)	(0.166)	(0.065)
Capital Reserve	0.000	0.000	(4.000)	(4.000)	(2.000)	(2.000)	0.000
Net Financing need	**1.243**	**7.286**	**4.157**	**18.387**	**4.159**	**0.674**	**2.820**

2.2 Commissioner's 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 financed 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 financed, 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)	2017-18 Actual £m	2018-19 Forecast £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Total CFR	57.705	62.201	63.399	77.945	78.089	74.745	72.813
Movement in CFR	(1.432)	4.496	1.198	14.546	0.144	(3.344)	(1.932)

Movement in CFR represented by	2017-18 Actual £m	2018-19 Forecast £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Net financing need for the year (above)	1.243	7.286	4.157	18.387	4.159	0.674	2.820
Less MRP/VRP and other financing movements	(2.675)	(2.790)	(2.959)	(3.841)	(4.015)	(4.018)	(4.752)
Movement in CFR	(1.432)	4.496	1.198	14.546	0.144	(3.344)	(1.932)

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

2.3 Minimum Revenue Provision (MRP) policy statement

NOPCC 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. It is at the CFO's discretion to reverse these additional payments at future dates if deemed necessary or prudent. Payments included in annual PFI or finance leases are applied as MRP. The additional provision that has been made to date is shown in the table below:

Additional Revenue Provision	£m
2016-17	0.750
2017-18	0.250
Total Additional Provision	1.000

Ministry of Housing,Communities and Local Government (MHCLG) 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 MHCLG.

2.4 Core funds and expected investment balances

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

	2017-18 Actual £m	2018-19 Forecast £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Fund balances/Reserves	22.682	23.926	20.836	16.733	16.503	16.344	16.485
Capital Receipts	3.886	2.162	2.434	0.563	0.000	0.000	0.000
Provisions	4.385	4.385	4.385	4.385	4.385	4.385	4.385
Other	(2.621)	(2.621)	(2.621)	(2.621)	(2.621)	(2.621)	(2.621)
Total Core funds	**28.332**	**27.852**	**25.034**	**19.060**	**18.267**	**18.108**	**18.249**
Working Capital*	**(4.867)**	**(4.867)**	**(4.867)**	**(4.867)**	**(4.867)**	**(4.867)**	**(4.867)**
(Under)/Over borrowing	**(16.882)**	**(12.255)**	**(10.236)**	**(9.750)**	**(9.057)**	**(5.958)**	**(2.194)**
Expected Investments	**6.583**	**10.730**	**9.931**	**4.443**	**4.343**	**7.283**	**11.188**

*Working capital balances shown are estimated as at the year end; these may vary throughout the year

2.5 Affordability

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 is not a mandatory indicator under the revised code, but it has been reviewed and considered a good indication of the commitment from capital spending.

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

Ratio	2017-18 Actual	2018-19 Forecast	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate
	1.8%	2.1%	2.0%	2.5%	2.5%	2.5%	2.8%

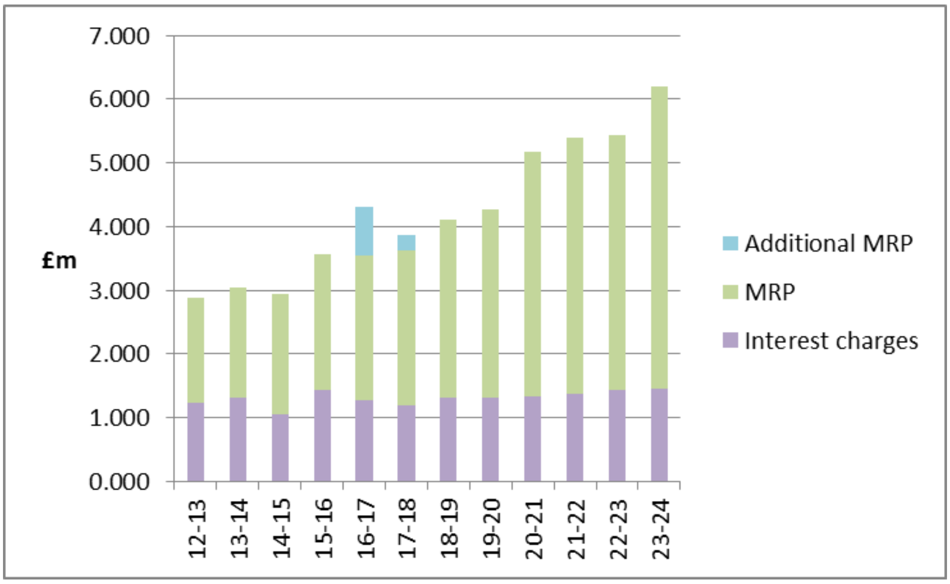
2.7 Incremental impact of capital investment decisions on council tax

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. Again this indicator is not a mandatory indicator under the revised code, but it has been reviewed and considered a good indicator of the commitment from capital spending.

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

Ratio	2017-18 Actual	2018-19 Forecast	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate
	£0.00	£1.20	£1.43	£4.52	£5.37	£5.69	£8.25

The graph below shows the financial impact of capital expenditure and borrowing on the Revenue Account:



3. BORROWING

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 the capital expenditure plan summarised in Section 2. This will involve both the organisation of the cash flow, including the arrangement of borrowing as approporiate. 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 2018, 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.

	2017-18 Actual £m	2018-19 Forecast £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
External Debt							
Debt at 1 April	40.704	37.169	46.292	49.509	64.541	65.378	65.133
New Borrowing	0.000	14.000	4.157	18.387	4.159	0.674	2.820
Borrowing Repaid	(3.535)	(4.877)	(0.940)	(3.355)	(3.322)	(0.919)	(0.988)
Movement in Borrowing	(3.535)	9.123	3.217	15.032	0.837	(0.245)	1.832
Debt as at 31 March	**37.169**	**46.292**	**49.509**	**64.541**	**65.378**	**65.133**	**66.965**
Capital Financing Requirement	57.705	62.201	63.399	77.945	78.089	74.745	72.813
Other longterm liabilities	(3.654)	(3.654)	(3.654)	(3.654)	(3.654)	(3.654)	(3.654)
Underlying Borrowing Need	54.051	58.547	59.745	74.291	74.435	71.091	69.159
Under/(over) borrowing	**16.882**	**12.255**	**10.236**	**9.750**	**9.057**	**5.958**	**2.194**
Investments	6.583	10.730	9.931	4.443	4.343	7.283	11.188
Net Debt	**30.586**	**35.562**	**39.578**	**60.098**	**61.035**	**57.850**	**55.777**

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 his 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 2019-20 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

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.

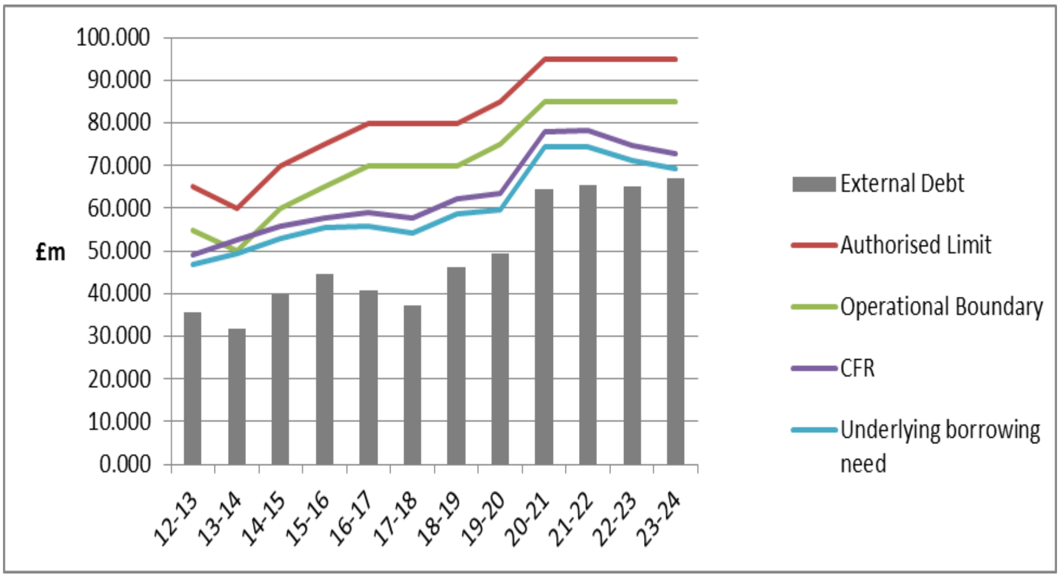
Operational Boundary	2018-19 Forecast £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Actual £m
	70.000	75.000	85.000	85.000	85.000	85.000

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

The Commissioner is requested to approve the following authorised limit:

Authorised Limit	2018-19 Forecast £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Actual £m
	80.000	85.000	95.000	95.000	95.000	95.000

The table below shows CFR and debt figures from paragraphs 2.2 and 3.1 compared with relevant borrowing limits.



3.3 Prospects for interest rates and economic background

One of the services provided by Link Asset Services is to assist the Commissioner in formulating a view on interest rates. The table below gives the view as at 09-01-19.

Link Asset Services Interest Rate View													
	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

After the August increase in Bank Rate to 0.75%, the first above 0.5% since the financial crash, the MPC has since then put any further action on hold, probably until such time as the market stabilises post Brexit, and there is some degree of certainty of what the UK will be heading into. It is particularly unlikely that the MPC would increase Bank Rate in February 2019 ahead of the deadline in March for Brexit, if no agreement on Brexit has been reached by then. ***The above forecast, is based on a central assumption that there is an agreement on a reasonable form of Brexit.*** In that case, we think that the MPC could return to increasing Bank Rate in May 2019, with no further movements anticipated until February 2020. However, this is obviously based on making huge assumptions which could be confounded. In the event of a disorderly Brexit, then cuts in Bank Rate could well be the next move.

The long-term trend is for a gentle rise in for gilt yields, and consequently PWLB rates but these can be impacted by unexpected global or UK events.

Rising bond yields in the US have also caused some upward pressure on bond yields for developed economies. However, the extent of that upward pressure has been dampened by the strength of the prospects for economic growth and rising inflation in each country, and on the level of quantitative easing and other credit stimulus measures.

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 to be weaker than we currently anticipate, and increases in inflation
- 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 2019-20 but to be on a gently rising trend over the next few years
- Borrowing interest rates have been volatile so far in 2018-19 and have increased modestly since the summer. The policy of avoiding new borrowing by running down spare cash balances has been appropriate 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 2019-20 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 2019-20 to 2021-22		
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 2019-20 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

NOPCC 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
- Would not be 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 compared to the cost of debt repayment (premiums incurred). Also the current treasury position needs due consideration

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 possible that the Municipal Bond Agency, will be offering loans to Local Authorities in the near future at borrowing rates lower than those offered by the Public Works Loan Board (PWLB). The Commissioner intends to make use of this new source of borrowing if it becomes available.

4. ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy

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

In accordance with guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the NOPCC 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 advisors 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.

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

4.2 Non-financial Investments Policy

Non-financial investments are essentially the purchase of income yielding assets. Currently radio masts are held and income is received for an item that is no longer operational. They were not acquired with that as a purpose, and were originally operational. The current income yield is circa £0.080m per annum. There is no intention to purchase these kinds of investments and any divergence from this would be the subject of a future report.

4.3 Creditworthiness Policy

The primary criterion is the security of investments. The liquidity (availability) of the investments is secondary consideration. The yield (return) on the investment is also a further 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:
- 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, 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 Services updates 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. Investments will only be made in sterling.

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 and relevant news articles) 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. The range of values for Low Volatility Net Asset Value Funds and Ultra Short Dated Bond Funds have 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**	**£8m**	**2 yr**
Low Volatility Net Asset Value Funds (LVNAV) (Used to be called Enhanced money market funds with instant access)	**AAA**	**£12/15m**	**liquid**
Ultra Short Dated Bond Funds (Used to be called Enhanced money market funds with notice)	**AAA**	**£3/5m**	**liquid**

4.4 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 January 2019

Based on lowest available rating

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

4.5 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 - On the assumption that the UK and EU agree a Brexit deal in spring 2019, then Bank Rate is forecast to increase steadily, but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

The forecast earnings rates for returns on investments placed for periods up to 3 months are as follows:

- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.50%

- 2021/22 1.75%
- 2022/23 1.75%
- 2023/24 2.00%
- Later years 2.50%

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 Commissioner is requested to approve the treasury indicator and limit:

Maximum principal sums invested > 365 days	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m
	5.000	5.000	5.000	5.000	5.000	5.000

There are currently no funds invested for greater than 365 days. For cash flow generated balances, the CFO 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.

4.6 Investment Risk Benchmarking

These benchmarks are simple guides to maximum risk, and may be breached occasionally, depending on circumstances. The purpose of the benchmarks 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 Commissioner's 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 £5.0m 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 is that investments achieve returns above the 7 day LIBID rate.

SECTION 151 OFFICER

5.1 Treasury Management Role

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