For Information	
Public/Non Public*	Public
Report to:	Audit and Scrutiny Panel – for information
Date of Meeting:	24th February 2020
Report of:	The Chief Finance Officer
Other Contacts:	Head of Finance
Agenda Item:	11

Precept and Budget Reports 2020-21

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 6th 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 reports provided for information are:

- Precept report 2020-21
- Medium Term Financial Strategy (MTFS)
- Reserves Strategy
- Revenue Budget Report 2020-21
- Capital Programme 2020-25
- Capital Strategy
- Treasury Management Strategy

4.2 The precept report shows how the precept has been calculated and the now agreed band charges for 2020-21.

4.3 The MTFS provides a picture of estimated income and expenditure over the next few years and the level of efficiencies required to set a balanced budget. This is based on the scenario that precept increases in future years will be limited to 2%.

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

4.5 The Revenue budget is a balanced budget report and builds on recruitment plans of the PCC with the national drive to recruit 20,000 officers over the next three years..

4.6 The Capital Programme provides detail on proposals for 2020-21, with specific plans relating to buildings and ensuring they are fit for purpose. An indicative capital programme to 2022-25 is also provided. But the schemes are subject to full business cases being approved.

4.7 The Capital Strategy shows 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.

4.8 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

- Appendix 1 - Precept report 2020-21
- Appendix 2 - Medium Term Financial Strategy
- Appendix 3 - Reserves Strategy
- Appendix 4 - Revenue Budget report 2020-21
- Appendix 5 - Capital Programme 2020-25
- Appendix 6 - Capital Strategy
- Appendix 7 - Treasury Management Strategy

Nottinghamshire

POLICE & CRIME COMMISSIONER

Precept 2020-21

January 2020

The Police & Crime Commissioner's Precept 2020-21

Letter from the Minister

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

- Funding nationally for Policing will increase by £915m in the form of grant for the uplift in police officer numbers and increased council tax freedoms.
- Core Police Grant will remain the same as in previous years.
- Precept freedoms allow for a £10 increase on Band D properties, raising £248m nationally.
- PTF funding will reduce from £175m to approximately £114m. This is allocated £60m for on-going programmes, £30m for SOC and £24m for Firearms.
- Funding of the Uplift of 6,000 officers by March 2021 will be provided as: £500m in core grant, £200m based on performance.
- The £700m of Uplift going to forces will be allocated via the funding formula.
- Continued support to cover the increase in pensions costs.
- An additional £90m for Counter Terrorism.
- £516m to fund ESN and other national IT projects.

Introduction

In light of the assumptions and opportunity made available by the Minister the Nottinghamshire Police & Crime Commissioner is proposing a precept increase of £9.99 for the 2020-21 financial year.

This increase in the precept supports the budget report and Commissioners commitment to increase in police officer numbers in our neighbourhoods. This will be achieved through Neighbourhood proactive teams. There continues to be a focus on reducing Knife Crime and the additional funding of Surge Grant (to provide resources for Policing to respond to the increase in knife crime) and additional funding for the Violence Reduction Unit (to provide multi-agency focus on violence reduction activity); this continues to build on the good work in these areas. The outcomes of these specific pieces of work will be reported to the Audit & Scrutiny Panel during the year.

Forever, cognisant of the environment the Commissioner has identified funding specifically to pilot electric police vehicles within the force, during 2020-21. The Commissioner also supports Victims Services through formal contracts and grants with the third sector. Further priorities include Rural Crime, crime prevention and partnership working, all vital to community safety.

This budget supports fully the Police & Crime Plan for 2020-21.

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 additional resource to the main police grant for the Uplift of officers by 20,000 over the next 3 years. This increase is in the core police grant and is therefore likely to continue in future years, although an element is based on achieving recruitment numbers set by the Home Office and based on formula share.

The additional Treasury Grant for the remainder of the pensions funding gap continues for 2020-21.

The £10 precept freedom indicated is for one year ahead of the next CSR and potential funding formula review. 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.

The impact of the McCloud/Sarjeant case will have a major impact on the pension funds for Police Officers and Police Staff. The pressure to agree a remedy nationally to this, as soon as possible, is high, as further complications develop. Nationally the Government have set aside £4bn to manage the implications across all public sector pension schemes.

Supporting Reports
The Budget Report and the Medium Term Financial Strategy Report on today's agenda details further the plans for 2020-21 and beyond.

The detailed budget for 2020-21, 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 & Crime Panel. These have been drawn together to support the Police & 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 & 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 continues to focus on the NHS and its funding requirements. The grants provided to policing for 2020-21 provide for the additional police officers promised by the Prime Minister and 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 2020-21 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 2020 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 £9.99 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 £10 increase on the precept for all Police & Crime Commissioners. The proposed increase of £9.99 is in line with this years change (further detail is provided in **Section 6**).

1. COUNCIL TAX BASE

For 2020-21 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 1.11% overall, this is less than last year's increase of 1.37%.

Tax base	**Band D Properties 2019-20 No**	**Band D Properties 2020-21 No**	**Change %**
Ashfield	33,542.50	33,695.30	0.46
Bassetlaw	34,794.99	35,373.06	1.66
Broxtowe	33,674.71	34,039.14	1.08
Gedling	37,007.37	37,387.44	1.03
Mansfield	29,219.90	29,407.70	0.64
Newark & Sherwood	38,771.64	39,229.76	1.18
Nottingham City	66,766.00	67,360.00	0.89
Rushcliffe	43,178.50	43,987.70	1.87
Total	**316,955.61**	**320,480.10**	**1.11**

2. COLLECTION FUND POSITION

Each billing authority uses a Collection Fund to manage the collection of the Council Tax. For 2020-21 the overall surplus continues to be created as collection rates are better than anticipated. A breakdown is provided in the table below:

Collection Fund		
Surplus/(deficit)	**2019-20** **£**	**2020-21** **£**
Ashfield	7,664	(47,000)
Bassetlaw	61,944	55,342
Broxtowe	53,810	75,869
Gedling	Nil	Nil
Mansfield	50,073	103,363
Newark & Sherwood	Nil	Nil
Nottingham City	92,473	176,866
Rushcliffe	(99,576)	(103,300)
Total	**166,388**	**261,140**

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

3. OTHER GRANTS

This year the Government has announced a Specific Grant based upon performance. Those Forces achieving the number of recruits required for Uplift will receive additional support grant in the quarter following achievement. For Nottinghamshire this equates to 107 Officers (£3m grant) and we are on target for recruitment by the end of March 2020.

Council Tax Legacy Grant is received by Commissioners for each Policing area. There is no change in the Legacy Grant for 2020-21 at £9.7m. This grant will be considered as part of the Funding Formula Review.

The funding from the Ministry of Justice includes an inflationary uplift and the new Rape support fund of £4m will be allocated on a pro rata basis. The total allocated now is £1.592m. A further £1m national fund, for ISVAs over the next two years, will be launched shortly and Commissioner's will be required to submit and expression of interest.

4. CONSULTATION

APPROACH

The Nottinghamshire Police & Crime Commissioner (PCC) has a statutory duty under the Police Reform & 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 undertook both a robust and representative survey of public opinion on the precept for policing as part of the Commissioner's quarterly Police and Crime Survey, and held a series of local focus groups in each of the Community Safety Partnership areas across Nottinghamshire to obtain more qualitative feedback.

The Police and Crime Survey obtained the views of 4,221 residents across the force area over four quarterly waves of fieldwork which were undertaken between January and December 2019. The survey provides a stable, robust and representative sample of public opinion at CSP level by age gender, ethnicity and deprivation. Residents were asked to what extent they supported an increase in the policing precept, and if not at all, their reason for not supporting an increase. Options for an increase in the precept were set at an extra £5, £10 or £12 or £24. Although the government's referendum threshold was not known at the time of survey, the results should be interpreted with this caveat in mind.

Focus groups were undertaken in Nottingham, South Nottinghamshire, Ashfield and Newark and Sherwood during January 2020. Results are expected in the week commencing 27 January 2020 and will be reported in due course.

KEY FINDINGS

Results from the Police and Crime Survey 2019 indicate that on balance, a larger proportion of residents support an increase in the council tax precept for policing than those that do not, however this margin has been diminishing year on year since March 2018. Around 53.5% of residents support an increase in the council tax precept for policing when those that are unsure are omitted from the profile, which is similar to the level of support seen in December 2016.

The proportion of residents supporting an increase within the limits of the referendum threshold fell from 45.4% in 2018 to 24.7% in 2019, while the proportion supporting a precept rise that exceeds the threshold rose from 12.0% to 28.9%. It should be noted, however, that the precept flexibility afforded to PCCs by the Government reduced from £24 to £10 over this period.

With the exception of Nottingham City, the proportion supporting an increase in the policing precept exceeded the proportion that did not across all county CSP areas. Nottingham City, however, saw the most notable decline in support for an increase, with levels having fallen from 55.1% to 48.8% during the year. Despite a 2.5% point reduction, support for an increase remains strongest in South Nottinghamshire (61.3%), while Bassetlaw, Newark and Sherwood (51.3%) and Mansfield and Ashfield (50.5%) also saw reductions of 4% pts and 2.9% pts respectively. Reflecting results from previous years, personal economic circumstances (87%) remain the most common reason for respondents not supporting a rise in the precept for policing.

The proportion of respondents feeling unable to answer the questions relating to the precept or requiring more information (22.5%) has remained stable at force level, but has risen from 22.5% to 27.5% in the city over the last year. In recognition of the high proportion of residents that felt unsure or in need of further information, the PCC commissioned a series of resident focus groups in January 2020 to obtain more detailed qualitative insight. The results of these focus groups are anticipated week commencing 27 January 2020.

The Police and Crime Survey also asks residents to what extent they agree or disagree that Nottinghamshire Police provides ‘good value for money’. Positively, the proportion of residents agreeing with the statement has increased marginally over the previous year, from 38.0% to 39.6%, while the proportion of residents disagreeing with the statement has reduced from 23.0% to 19.3%.

5. COUNCIL TAX REFERENDUMS

The Localism Act 2011 requires authorities including Police & Crime Commissioners to determine whether their ‘relevant basic amount of council tax’ for a year is excessive, as excessive increases trigger a council tax referendum. The Secretary of State is required to set out principles annually, determining what increase is excessive. For 2020-21 the principles state that, for Police && Crime Commissioners, an increase of more than £10 in the basic amount of council tax between 2019-20 and 2020-21 is excessive.
For 2020-21 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 2020-21 estimated calculation:

$$\frac{£73{,}492{,}496.53}{320{,}480.10} = £229.32$$

(£9.99)

This year the Referendum limit has been announced at the time of settlement notifications. It has been set at £10 for 2020-21.

6. 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 the 20,000 uplift in Police Officer numbers nationally, 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 2020-21 result in a Police and Crime Precept on the Council Tax of £229.32 for a Band D property, representing an increase of £9.99.

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 & Crime Precept on the Council Tax is as follows:

	2019-20 Budget £m		2020-21 Budget £m		Increase/ Decrease £m	
Budget	206.3		224.6		18.3	(+)
External Income	138.6	(-)	151.1	(-)	12.5	(-)
Collection Surplus	0.2	(-)	0.3	(-)	0.1	(-)
Reserves	2.0	(+)	0.3	(+)	1.7	(-)
Precept	**69.5**	**(-)**	**73.5**	**(-)**	**4.0**	**(-)**
Council Tax Base	316,956		320,554		3,598	
Council Tax Band D	£219.33		£229.32		£9.99	
Council Tax Band A	£146.22		£152.88		£6.66	

The overall Police & Crime Precept to be collected on behalf of the Police & Crime Commissioner for 2020-21 is:

	£m	
Budgeted Expenditure	224.6	(+)
Less income from:		
Police & Crime Grant	136.4	(-)
Legacy Council Tax Grant	9.7	(-)
Pension Grant	2.0	(-)
Specific Grant	3.0	(-)
Collection Fund surplus	0.3	(-)
Net contribution to/from Balances	0.3	(+)
Police & Crime Precept on the Council Tax	73.5	(-)

Appendix A compares the Government Grant between 2019-20 and 2020-21.

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	**2019-20** **£**	**2020-21** **£**
A	146.22	152.88
B	170.59	178.36
C	194.96	203.84
D	**219.33**	**229.32**
E	268.07	280.28
F	316.81	331.24
G	365.55	382.20
H	438.66	458.64

Amounts to be raised from Council Tax in each billing authority area 2020-21:

	Precept amount to be collected £	Collection Fund Surplus/(Deficit) £	Total amount due £
Ashfield	7,727,006.20	(47,000.00)	7,680,006.20
Bassetlaw	8,111,750.12	55,342.00	8,167,092.12
Broxtowe	7,805,855.58	75,869.00	7,881,724.58
Gedling	8,573,687.74	Nil	8,573,687.74
Mansfield	6,743,773.76	103,363.00	6,847,136.76
Newark & Sherwood	8,996,168.56	Nil	8,996,168.56
Nottingham City	15,446,995.20	176,866.00	15,623,861.20
Rushcliffe	10,087,259.36	(103,300.00)	9,983,959.36
Total	**73,492,496.53**	**261,140.00**	**73,753,636.52**

Collection Dates

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

	£
2020	
20 April	7,375,364.00
28 May	7,375,364.00
02 July	7,375,364.00
06 August	7,375,364.00
11 September	7,375,364.00
15 October	7,375,364.00
19 November	7,375,364.00
2021	
06 January	7,375,364.00
03 February	7,375,364.00
11 March	7,375,360.52
	73,753,636.52

7. ROBUSTNESS OF THE ESTIMATES

The Chief Finance Officer to the Police & 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 progressed slowly and could potentially impact on the delivery of the full capital programme. This is continuously being monitored to minimise any impact on the revenue budget. 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 £9.99 band D increase in Council Tax for 2020-21.

APPENDIX A

Year on year comparison of settlement grants
Nottinghamshire

Grant	2019-20 £	2020-21 £	Change £	Reason
Police Core grant (HO)	78,514,341	78,514,341		
Additional £532m		9,497,498	9,497,498	Uplift for 107 officers (part)
Ex-DCLG Funding Formula	48,395,167	48,387,121	(8,046)	
Sub-total core grant	**126,909,508**	**136,398,960**	**9,489,452**	
Legacy Grant	9,726,194	9,726,194		
Pensions Grant	2,028,216	2,028,216		
£168m Specific Grant		2,999,210	2,999,210	Uplift Performance for 107 Officers
Total Government Funding	**138,663,918**	**151,152,580**	**12,488,662**	

In addition to the above Nottinghamshire receives Capital Grant. For 2020-21 this has reduced to £200,000 from £700,000 in 2019-20.

Nottinghamshire
POLICE & CRIME COMMISSIONER

Medium Term Financial Strategy

2020-21 to 2024-25

Jan 2020

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 2020-21 and incorporates plans to meet changes in available financing with the need to meet current and future commitments.

The Government announced the Police settlement in January 2020. This increased the total funding envelope available to Policing by £915m for 2020-21. The majority of the increase related to additional funding for an additional 6,000 Police Officers (the first tranche of the 20,000 promised over the next 3 years).

The additional funding for the Uplift in officers comes in two parts: an increase in core grant and a specific grant payable in arrears upon achieving the required number of officers recruitment.

As part of the increase in total funding £248m will come from all forces if they chose to accept the further year of precept freedoms, by raising council tax Ban D by £10. There is no additional funding to cover pay awards, inflation and increments and therefore these costs will have to be met from the increase in Council Tax.

The additional Treasury grant provide last year for the changes in the police pension valuations continues for a further year.

Nationally, the PTF funding is being phased out and only continues for those multiyear projects that were already underway. An additional £90m has been provided for counter terrorism and £516m to fund ESN ant other national IT projects.

The current CSR period has been extended with a one year CSR. 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. And the Treasury have already indicated that next year's settlement is expected to be very difficult.

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

As part of the budget for 2019-20 the Commissioner made funds available to recruit an additional 40 officers during the year (above the attrition that takes place and is being replaced each year). Under the Uplift being funded by additional grant Nottinghamshire will recruit a further 107 officers. These are expected to have been recruited by the end of March 2020 well in advance of the March 2021 target set by Government. In total over the next 3 years Uplift is expected to provide a total of 357 officers for Nottinghamshire.

1. The amount of core grant funding is to increase for Operation Uplift
2. An additional Pension Grant of £2.0m continues for one further year. No guarantee beyond this.
3. The Referendum assumptions allow for £10 precept increase in 2020-21.
4. The estimated tax base increase is 1.11% for 2020-21 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).
6. The longer term impact of incremental progression relating to the 300+ 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 2022-23.

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**	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Core Police Grant	126.9	126.9	126.9	126.9	126.9	126.9
Uplift Grant		9.5	17.6	22.4	22.1	22.1
Total Core Police Grant	**126.9**	**136.4**	**144.5**	**149.3**	**149.0**	**149.0**
Council Tax Legacy Grant	9.7	9.7	9.7	9.7	9.7	9.7
Pension grant	2.0	2.0	2.0	2.0	2.0	2.0
Precept	69.5	73.5	75.0	76.5	78.0	79.6
Specific Grant (Uplift)		3.0	1.0	1.0		
Collection fund surplus/(deficit)	0.2*	0.5				
Transfer to reserves **	(2.0)	(0.5)				
TOTAL	**206.3**	**224.6**	**234.7**	**245.7**	**253.1**	**260.0**

* The surplus to be received in 2020-21 will be transferred to reserves less an adjustment for the difference between estimated and actual tax base figures.

** The transfer to reserves shown is part of the reserves strategy.

Investment

This Medium Term Financial Strategy allows the Commissioner to continue investing further in Neighbourhood Policing. This has been supported by the national drive to increase officers by 20,000 over the next three years. For Nottinghamshire this equates to a further 357 officers over the planned establishment. The Commissioner is also continuing to ensure 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 dedicated teams being replicated in the City and County.

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 some 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	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Total Efficiencies	**2.0***	**1.0**	**2.3**	**1.9**	**1.3**

- Efficiencies in 2020-21 are already allocated across the relevant budgets in 2020-21 (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 £1.592m 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. 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 reduced significantly from £0.7m for 2019-20 to £0.2m for 2020-21. 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.

Table 3 Expenditure Budget	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Employee	177.3	189.4	200.7	207.7	212.9
Non-Pay costs	51.4	52.4	53.4	54.5	55.6
Income	(12.2)	(12.3)	(12.4)	(12.6)	(12.7)
Sub-total Force Expenditure	**216.5**	**229.5**	**241.7**	**249.6**	**255.8**
OPCC	5.1	5.2	5.3	5.4	5.5
Total Expenditure	**221.6**	**234.7**	**247.0**	**255.0**	**261.3**

Summary

The summary below is based upon no further precept freedoms from 2021-22 onwards. The Home Office have stated that freedoms relating to inflation will be provided in the precept as Police Grant will remain flat (with the exception of Uplift).

Most Likely Scenario	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Policing					
Net Expenditure **	219.5	229.5	241.7	249.6	255.8
OPCC					
Net Expenditure *	5.1	5.2	5.3	5.4	5.5
Total net expenditure	**224.6**	**234.7**	**247.0**	**255.0**	**261.3**
Total Funding Available	**224.6**	**234.7**	**245.7**	**253.1**	**260.0**
Savings required			1.3	1.9	1.3

'* The OPCC has made efficiencies in the absorption of pay award and inflationary increases. These have been incorporated into the net budget figure.

'** specific grant expenditure has been included

Nottinghamshire

POLICE & CRIME COMMISSIONER

Reserves Strategy 2020-21

January 2020

Reserves Strategy 2020-21

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 the good news of being able to recruit additional officers remains a challenge. The funding for the officer increase is being allocated on funding formula share and traditionally this has meant that Nottinghamshire has to pick up a proportion of those costs. This is particularly difficult as all support service costs are now in the lowest quartile making it difficult to find where additional savings to fund the gap can actually be made. 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 2019-20 financial year and their estimated balance by 1st April 2020.

Details of the **earmarked reserves** available for use in 2020-21 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 current and 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. This reserve has been completely utilised as at the end of 2018-19 and will only be replenished from potential underspends in the future. This means that total revenue expenditure must agree to the budget going forward.

Asset Replacement Reserve

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

37. This reserve has been created from the repayment of reserves used in previous years. A significant call on those reserves has had a major impact on the levels of reserves held. Therefore, it has been agreed that £11.5m will be repaid to finance the major capital expenditure on assets over the next few years.

38. 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 (c£18m) and collaboration with NHSE for a new SARC building (£1.9m). 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 and future revenue budgets.

39. 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

40. 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.

PCC Reserve

41. 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

42. 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 part 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

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

Property Act Fund Reserve

44. 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

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

Revenue Grants

46. 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 reasonable 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

47. 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

48. 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.

49. 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.

50. 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.

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

Night Time Levy

52. 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.

53. 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

54. 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

55. 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.

56. 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.

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

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

<u>Procedure for Use of Reserves</u>

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

60. 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.

61. 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

62. 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.

63. 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.

Risk Analysis

64. 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.

65. 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.

66. 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
2020-20

GENERAL RESERVE

RISK	IMPACT	PROBABILITY	Min £m	Max £m	Proposed for 2020-21 £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 31.03.20 £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	0.000
Asset Replacement	To provide funding towards major items of capital expenditure.	In conjunction with the Treasury Management Strategy and where borrowing is not the whole answer.	Chief Finance Officer	On-going	6.747
IT Investment	To provide for investment in new IT software and hardware	In line with the IT strategy	Chief Finance Officer	On-going	0.372
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	0.560
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	3.799
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	0.088

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	0.027
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	1.974
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	1.640
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	0.045
Target Hardening	To be utilised when activity has been identified and agreed with partners.	Once schemes have been approved.	Chief Finance Officer	Annually	0.000
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	0.908
TOTAL					**17.574**

Appendix C (i)

Tables to show the use of General Reserves

	2019-20	2020-21		2021-22		2022-23		2023-24		2024-25	
	01.04.19 Balance £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	01.04.24 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	***3.4%***	*3.2%*		*3.0%*		*2.8%*		*2.8%*		*2.7%*	

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

	2019-20	2020-21			2021-22		2022-23		2023-24		2024-25	
Earmarked Reserves	**01.04.19 Actual £m**	01.04.20 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	Use in year £m	31.03.25 balance £m
MTFP	**0.000**	0.000		0.000		0.000		0.000		0.000		0.000
Asset Replacement	**4.947**	6.747	(6.000)	0.747	2.000 (2.500)	0.247	2.000 (2.200)	0.047		0.047		0.047
IT Investment	**0.722**	0.372		0.372		0.372	(0.300)	0.072		0.072		0.072
PCC Reserve	**0.760**	0.560	(0.043)	0.517		0.517		0.517		0.517		0.517
Grants & Commissioning	**3.999**	3.799	(0.800)	2.999	(0.500)	2.499		2.499		2.499		2.499
PFI	**0.048**	0.088	0.041	0.129	(0.330)	(0.201)	0.042	(0.159)	0.042	(0.117)	0.042	(0.075)
Property Act Fund	**0.196**	0.196		0.196		0.196		0.196		0.196		0.196
Drug Fund	**0.027**	0.027		0.027		0.027		0.027		0.027		0.027
Revenue Grants	**1.974**	1.974		1.974		1.974		1.974		1.974		1.974
Animal welfare	**0.019**	0.018	(0.001)	0.017	(0.001)	0.016	(0.001)	0.015	(0.001)	0.014	(0.001)	0.013
Tax Base	**1.514**	1.640		1.640		1.640		1.640		1.640		1.640
Night Time Levy	**0.201**	0.045	0.100	0.145	0.100	0.245	0.100	0.345	0.100	0.445	0.100	0.545
Target Hardening	**0.073**	0.000		0								
Allard	**1.200**	1.200	(1.200)	0								
Joint Ops	**0.908**	0.908		0.908		0.908		0.908		0.908		0.908
TOTAL	**16.588**	**17.574**	**(7.903)**	**9.671**	**(1.231)**	**8.440**	**(0.359)**	**8.081**	**0.141**	**8.222**	**0.141**	**8.363**

Nottinghamshire

POLICE & CRIME COMMISSIONER

Budget 2020-21

NOTTINGHAMSHIRE

POLICE

PROUD TO SERVE

January 2020

Between 2008-09 and 2017-18 efficiency savings and budget reductions were 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.

In 2018-19 additional council tax freedoms were allowed and the PCC agreed 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, but budget pressures in the year, especially from externally managed collaboration services (MFSS), and from an increased number of knife crime related incidents meant that the amount of funding available to contribute to reserves was £0.7m.

However, with improved medium term budgeting, continued efficiency drives and additional funding the outlook remains positive and a sustainable financial position being achieved.

Changes at a national government level during 2019 resulted in a change to policy for policing with the announcement of a commitment to achieve an uplift of 20,000 police officers over the period to 2022-23. Nottinghamshire's share of this uplift is to be 107, 143 and 107 officer uplift in each of the next three financial years respectively.

Locally both the PCC and Chief Constable have supported achieving this uplift of numbers earlier than the government require and we will start 2020-21 with the full complement of our additional 107 officers.

Central government have included funding in the annual settlement to support their aims and also announced additional funding to encourage early achievement of targets for each individual force. The positive action of the PCC and Chief Constable has placed Nottinghamshire in a very good position to achieve an additional £3m in funding, the maximum amount available which will allow for future investment in 2020-21 in the PCC's priorities, over and above those confirmed in this report.

The careful management of finances and foresight of investment means that Nottinghamshire Police force is well placed to deliver investment in the future and maintain a sustainable financial position.

During 2019-20 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. The sexual violence support work has included:

- working with city and county partners to ensure that support was in place for survivors affected by the publication of the Independent Inquiry into Child Sexual Abuse's Nottinghamshire report;
- driving forward work with Clinical Commissioning Groups (CCGs) and local authorities to improve mental health support services for sexual violence survivors, resulting in the development of a specialist pathway through mental health services and personal health budgets for adult survivors of child sexual abuse;
- co-commissioning with NHS England a comprehensive need assessment for sexual violence and abuse;
- successfully securing £545,000 for additional support for sexual violence and abuse survivors in Nottinghamshire from NHS England's High Volume Fund;
- working with survivors to develop a new model of support which will deliver what survivors have been asking for as well as meeting the recommendations of the needs assessment.

Work continues in January 2020 to agree collective funding for the new model, which will be commissioned later in 2020.

Other victim support services continue to deliver well. This includes adult and paediatric Sexual Assault Referral Centres, adult and children's Independent Sexual Violence Adviser services, domestic abuse support and Nottinghamshire Victim CARE. The PCC worked with the County Council to re-co-commission domestic abuse support services, with new contracts due to begin in April 2020.

In July 2019 the PCC's pilot of support for victims of non-domestic stalking began. The specialist service, which mostly provides safety planning and advocacy, works closely with officers and Nottinghamshire Police's monthly stalking clinic. Feedback from victims has been extremely positive.

In other commissioning work, the PCC has worked with his city and county colleagues to co-commission new substance misuse support services in the City and County which incorporate the findings of the independent review he commissioned in 2018.

Nottingham City and Nottinghamshire were one of 18 areas in the country to receive funding from the Home Office's Serious Violence Fund in 2019/20 to form a Violence Reduction Unit (VRU) which, based on models previously seen in London and Glasgow, tasked with developing a long term a public health approach to tackling serious violence. A VRU was formed in September 2019, having received funding of £880,000, reporting into the OPCC, and working alongside existing statutory partnerships such as the CDP and the SNB. A multi-agency team has been established with a focus on strategic leadership and coordination of violence reduction activity.

The VRU are in the process of producing a number of mandatory products such as a countywide Serious Violence Strategic Needs Assessment and a Response Strategy, and has commissioned a number of interventions aimed at a life course approach. Commissioned activity is based on the principle that intervening early to prevent issues emerging is the most effective way to ensure children, young people, families and communities in Nottingham City and Nottinghamshire County thrive.

£0.5m (58% of the funding allocated) has been spent on interventions, which vastly outweighs the minimum 20% spend on interventions recommended in the Home Office guidance. Outputs so far include holding one to one sessions with children who have grown up in homes with domestic violence to cope with trauma, workshops with young men who are at risk of perpetrating violence, particularly toward women and girls, enabling them to understand healthy relationships, and workshops at HMP Nottingham aimed at building the resilience of those who have already offended to help them make the right choices in the future. All interventions are being evaluated to build a local evidence base so we can understand what works to reduce violence in the context of Nottingham and Nottinghamshire.

Current performance in reducing knife crime in Nottinghamshire is extremely positive, with an 8.4% reduction during the last 12 months to end October 2019. The most significant reduction has been in the City. Latest national comparisons (12 months to June 19) show that Nottinghamshire is one of the few areas nationally experiencing a decrease in knife crime.

BUDGET 2020-21

Government funding has increased in order to deliver the priority of increased police numbers. A focus on delivering value for money from the investment placed over the next three years will be maintained and existing efficiency processes remain in place. 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 2020-21	**2020-21 £m**
Core grants & funding	
Police & Crime grant	(139.4)
Council Tax legacy grant	(9.7)
Pensions grant	(2.0)
Sub-total core grants	**(151.1)**
Precept	**(73.5)**
Collection fund (surplus)/deficit	(0.5)
Contribution to Reserves	0.5
Total funding available	**(224.6)**
Performance grant for in year allocation	3.0
Total funding available	**(221.6)**

In addition to the funding available above there is also a £3m ring fenced grant in relation to the uplift of an extra 20,000 officers nationally. This will be based on performance in delivering the additional 107 officers that relate to the Nottinghamshire allocation. This will be paid quarterly in arrears and when achieved will be allocated in year.

As this funding is based on performance throughout the year no specific budget allocation has been made in the base budget. It is expected that as performance funding is released by government the PCC will make decisions in year as to its allocation.

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 £10.00 for a band D property for 2019-20 this equates to a maximum rise of 4.55%. 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 increase in line with government projections.

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 still 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, are more energy efficient and will also deliver on-going revenue savings.

1.2 Investment in Service

The increase in precept and government funding will allow Nottinghamshire to invest further in frontline resources, for example having 107 additional officers working on the front line by April 2020. This builds on the existing schools early intervention officers, dedicated burglary, robbery and knife crime teams, and working in local neighbourhoods, that have resulted in 140 additional officers being made available since 2018-19. Therefore by 2023-24 almost 500 additional officers will have been created over a five year period.

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 detection technology and in partnership working.

Supporting the growth in officers funding has also been identified for staff support, this will include investment in partnership working, front line officer support as well as infrastructure and enabling services. In total an additional 50 staff roles will be recruited during 2020-21.

Funding of £0.5m has been allocated to support demand and activity changes identified as part of the forces Annual Departmental Assessments, a process by why value for money is internally assessed. During the year business cases will be developed and where these meet organisational requirements funding will be supplied from within this £0.5m total.

A small team of four staff has been created to develop the future strategy for corporate IT services (Op Regain). This project is to ensure future systems are fit for purpose.

The Commissioner and Chief Constable also have allocated £150,000 to further augment our prevention activity based on in year demand. 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.

In our capital expenditure plans significant spend is expected in delivering a new custody facility and joint Police and Fire headquarters building at Sherwood Lodge. There is also a commitment to sustainability in these new builds and this is further embedded in our core activities with investment in four electric vehicles for operational policing.

1.3 Summary expenditure

The Commissioner is required to set a balanced budget each year, with 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. In 2020-21 £2m cashable efficiencies are identified and have been allocated to specific areas within the base budget.

Expenditure 2020-21	2020-21 £m
Previous expenditure	206.3
Non Pay inflation increases	0.6
Pay increases	9.9
Changes in demand	5.3
Investment	1.5
Sub-total expenditure	**223.6**
Efficiencies	(2.0)
Total net expenditure	**221.6**

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

2. 2020-21 Budget breakdown

Annex 1 details the proposed expenditure budget for 2020-21. The proposed revenue budget is £221.6m.

Net expenditure budget	Initial 2020-21 £m	Efficiencies £m	Base 2020-21 £m	Note
Employee	144.3	0.6	143.7	2.1
Premises	6.1	0.0	6.1	2.2
Transport	6.2	0.0	6.2	2.3
Comms and Computing	8.9	0.0	8.9	2.4
Supplies & services	10.0	0.2	9.8	2.5
Agency & contract services	18.4	0.0	18.4	2.6
Pensions	35.8	1.2	34.6	2.7
Capital financing	8.5	0.0	8.5	2.8
Income	(14.6)	0.0	(14.6)	2.9
Net Expenditure	**223.6**	**2.0**	**221.6**	**Annex 1**

An alternative thematic view of the 2020-21 budget is also detailed at Annex 5.

2.1 Employee related expenditure

The 2019-20 budget provided for continued officer and staff recruitment. 40 new front line police officer posts were recruited and this follows on from an increase of 80 new front line posts in 2018-19.

In line with the government uplift programme Nottinghamshire will have also recruited an additional 107 officers by March 2020 for deployment in 2020-21. During this year as additional 50 staff members will also be added to the establishment. This makes this the single biggest increase in force resources since austerity measures began in 2008-09.

A pay award has been included in the budget at 2.5% 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 2020-21. Annex 3 details the budgeted police officer, police staff and PCSO numbers for 2020-21.

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 the majority of building works are expected during 2020-21. 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 2020-21 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.

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 2020-21 inflation for gas and electricity has been budgeted at 3.0%. In addition costs have increased as a result of uplift numbers.

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.

The additional funding for uplift has allowed for 40 extra vehicles to support the growth in officer/staff numbers. This has resulted in increased transport running costs.

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. During 2019-20 a new command and control system has been implemented and relevant running costs of this system have been included in the budget.

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 in the ADA funding allocation 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 2020-21.

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 2020-21, 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	2020-21 £m
Agency costs	0.0
Collaboration contributions	11.5
Community safety	5.3
Other partnership costs	1.6
Total	**18.4**

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 £11.5m for 2020-21. 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	2020-21 £m
EMSOU	3.5
Major crime	0.2
Tactical surveillance unit	0.6
Forensics	1.4
EMOpSS Air Support	0.7
EMCJS	0.3
Learning & development	0.8
Occupational health unit	0.5
Legal	0.5
Multi Force Shared Services (MFSS)	3.0
Total	**11.5**

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 was increased by £0.2m reflecting this trend. For 2020-21 a more stable outlook is expected and current budget levels have remained.

Employer contributions in respect of the LGPS scheme are reviewed by the Actuaries on a tri-annual basis and annual contributions are then adjusted. This revaluation took place in 2019 and contributions were increased by 3.1%, this increase has been included within the budget.

A reduction in pension cost has arisen as the number of contributors to the scheme has reduced. This is generally down to either officers reaching the 30 years contribution or due to staff/officers opting out of the pension scheme.

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 2020-21 has been prioritised to ensure that schemes included are not only reflective of need but also are realistic in deliverability.

In line with the new approach fewer schemes are proposed in 2020-21, 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.

Significant increases in capital financing cost have arisen due to increased revenue support for the financing of projects. This cost has been funded from uplift as funding has been front loaded to allow forces to put the infrastructure in place to support additional officers and staff.

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.

During 2019-20 surge funding in respect of the serious violence strategy was announced. Nottinghamshire received £1.5m in funding. The government have indicated that this funding will continue but at a reduced level; grant income of £0.7m has therefore been assumed.

2.10 Use of reserves

There are no plans to use significant reserves in 2020-21.

Strategically it is anticipated that £11.5m will be returned to reserves over the medium term, with £4.7million 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 2019-20 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 2019-20 and 2020-21.

3. Efficiencies

3.1 2019-20 Efficiencies

As part of the 2019-20 budget the following efficiencies were 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**

3.2 The Commissioner is of the view that continuingly achieving efficiencies is challenging and current indications at the time of producing this report is the Force may achieve a reduction of £2.2m against the 2019-20 budget. In year additional vacancies above those budgeted have been achieved to offset this reduction.

3.3 2020-21 Efficiencies

As part of the 2020-21 budget the following efficiencies are required in order to set a balanced budget.

Efficiencies 2020-21	£m
Procurement	0.2
Pensions	1.2
Total	**1.4**
Ongoing staff pay savings	0.6
Total	**2.0**

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 2020-21, 3 officers and 76 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 2020-21 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 33 police officers and 7 staff FTE's seconded out of the organisation in 2020-21. This compares with 31 officers and 7 staff FTE's seconded in 2019-20.

Annex 1

2020-21 Commissioner's Total Budget (£m)

	Force Budget 2020-21 £m	OPCC Budget 2020-21 £m	Total Budget 2020-21 £m
Pay & allowances			
Officer	113.1	0.0	113.1
Staff	46.3	1.0	47.3
PCSO	5.7	0.0	5.7
	165.1	**1.0**	**166.1**
Overtime			
Officer	4.2	0.0	4.2
Staff	0.8	0.0	0.8
PCSO	0.1	0.0	0.1
	5.1	**0.0**	**5.1**
Other employee expenses	2.2	0.0	2.2
Medical retirements	4.9	0.0	4.9
	177.3	**1.0**	**178.3**
Other operating expenses			
Premises related	6.1	0.0	6.1
Transport	6.1	0.0	6.1
Communications & computing	8.9	0.0	8.9
Clothing & uniforms	0.6	0.0	0.6
Other supplies & services	5.5	0.3	5.8
Custody costs & police doctor	1.6	0.0	1.6
Forensic & investigative costs	2.1	0.0	2.1
Partnership payments & grants to external organisations	1.3	6.2	7.5
Collaboration contributions	11.5	0.0	11.5
Capital financing	8.5	0.0	8.5
	52.2	**6.5**	**58.7**
Total expenditure	**229.5**	**7.5**	**237.0**
Income			
Seconded officers & staff income	(2.5)	0.0	(2.5)
Externally funded projects income	(4.1)	0.0	(4.1)
PFI grant	(1.9)	0.0	(1.9)
Ministry of Justice (MoJ)	0.0	(2.4)	(2.4)
Investment interest	(0.3)	0.0	(0.3)

	Force Budget 2020-21 £m	PCC Budget 2020-21 £m	Total Budget 2020-21 £m
Other income	(4.3)	0.0	(4.3)
	(13.1)	**(2.4)**	**(15.5)**
Net use of reserves	**0.0**	**0.0**	**0.0**
Total	**216.5**	**5.1**	**221.6**

Efficiencies as a result of specific plans totalling £2.0m have already been removed from the main budgets.

Annex 2

Workforce Movements 2019-20 Estimated Outturn v 2020-21 Budget

	2019-20 Estimated Outturn* FTE's	2020-21 Budgeted Total FTE's	Movements FTE's
Core Funded			
Police Officers			
Operational	1,216	1,251	35
Intelligence & Investigations	699	677	(22)
Operational Collaborations	111	105	(6)
Corporate Services	23	21	(2)
	2,049	**2,054**	**5**
Police Staff			
Staff	1,156	1,206	50
PCSO	166	185	19
	1,322	**1,391**	**69**
	3,371	**3,445**	**74**
Group Total			
Core	3,371	3,445	74
Seconded	43	40	(3)
Externally Funded	72	79	7
Force Total	**3,486**	**3,564**	**78**
OPCC	**22**	**23**	**1**
	3,508	**3,587**	**79**

***** The estimated outturn as at 31st March 2020.

* There is a temporary uplift in the OPCC numbers as there are an extra 7.1 FTE's included that relate to the violence reduction unit that is currently planned to continue until March 2021.

Annex 3(i)

Workforce Plan FTE's

	Operational FTE's	Intelligence & Investigations FTE's	Operational Collaborations FTE's	Corporate Services FTE's	Core Funded FTE's
	2020-21				
Police Officers					
Opening balance*	1,216	699	111	23	**2,049**
Leavers / restructure	(60)	-	-	-	**(60)**
Retirement	(11)	(22)	(6)	(2)	**(41)**
Recruitment	106	-	-	-	**106**
	1,251	**677**	**105**	**21**	**2,054**
Police Staff					
Opening balance*	397	263	218	278	**1,156**
Leavers / restructure	-	-	-	-	**-**
Recruitment	19	19	-	12	**50**
	416	**282**	**218**	**290**	**1,206**
PCSOs					
Opening balance*	161	5	-	-	**166**
Leavers / restructure	(30)	-	-	-	**(30)**
Recruitment	49	-	-	-	**49**
	180	**5**	**-**	**-**	**185**
Opening Balance*	1,774	967	329	320	**3,371**
Movement	73	(3)	(6)	(5)	**74**
Closing Balance	**1,847**	**964**	**323**	**315**	**3,445**

***** Opening balance is the estimated outturn as at 31st March 2020.

Annex 3(ii)

Workforce Plan FTE's

	2020-21					
	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*	**2,049**	36	3	**2,088**	-	**2,088**
Leavers / restructure	**(60)**	-	-	**(60)**	-	**(60)**
Retirement	**(41)**	(3)	-	**(44)**	-	**(44)**
Recruitment	**106**	-	-	**106**	-	**106**
	2,054	**33**	**3**	**2,090**	**-**	**2,090**
Police Staff						
Opening balance*	**1,156**	7	69	**1,232**	22	**1,247**
Leavers / restructure	**-**	-	-	**-**	-	**-**
Recruitment	**50**	-	7	**57**	1	**1**
	1,206	**7**	**76**	**1,289**	**23**	**1,312**
PCSOs						
Opening balance*	**166**	-	-	**166**	-	**166**
Leavers / restructure	**(30)**	-	-	**(30)**	-	**(30)**
Recruitment	**49**	-	-	**49**	-	**49**
	185	**-**	**-**	**185**	**-**	**185**
Opening Balance*	**3,371**	43	72	**3,486**	22	**3,508**
Movement	**74**	(3)	7	**78**	1	**79**
Closing Balance	**3,445**	**40**	**79**	**3,564**	**23**	**3,587**

***** Opening balance is the estimated outturn as at 31st March 2020.

Annex 4

Variation to the 2019-20 Budget

Police pay & allowances

The £5.2m increase from the 2019-20 budget is predominantly due to achieving the additional 107 officers for uplift by March 2020. Also the increase will have the impact of pay scale increments and the 2.5% pay award which has been partly offset by a reduction in pension costs due to a lower amount of officers taking up the scheme.

Police staff pay & allowances

The £3.3m increase from the 2019-20 budget is due to factoring an additional 50 staff members for uplift as well as pay awards of 2.5% and increments. The force budgets for a vacancy rate, anticipating that there is a gap between a leaver and a new starter. This is anticipated at 3% for 2020-21 and this gap is now much lower than in previous years due to the continued impacts of changes to departmental structures following the Annual Departmental Assessments – a business management programme introduced in 2017-18.

PCSO pay & allowances

The costs year on year remain flat for PCSOs. There has been a greater level of leavers in 2019-20 mainly due to them becoming regular police officers but the plan is to maintain PCSO numbers at 185 FTE's by March 2021 to align with the current operating model.

Overtime

The £0.3m increase from the 2019-20 budget is due to officer and staff costs rising by at least the pay award of 2.5% and also to recognise the fact that amount of FTE's is increasing in the organisation.

Medical retirements

The costs of this are expected to remain flat year on year and the budgeted number reflects that amount of forecasted medical retirements in 2020-21.

Premises related

There is an increase of £0.3m from the 2019-20 budget due to additional costs in relation to the uplift of officers, increased services for fees relating to property sales, an increase in day to day maintenance charges keeping our estate in working order and an increase in hiring of rooms, which will hopefully decline when the new joint FHQ is operational.

Transport

The £0.4m increase from the 2019-20 budget is largely due to an increase in the cost of repairs to our vehicle fleet, and a general increase in running costs, fuel, maintenance etc. due to the increase in vehicles as a result of Operation Uplift.

Communications & Computing

There is a £0.2m increase in costs from the 2019-20 budget and this is because of increased support and maintenance charges due to the implementation of the new Command and Control system and increases in Home Office ICT charges above the level of inflation.

Other supplies & services

The £0.1m decrease stems from procurement savings found in 2018-19 that have a full year effect in 2019-20.

Partnership payments

The £0.8m increase from the 2018-19 budget is mainly due to the inclusion of the violence reduction unit and this is fully offset by income received from the Home Office.

Collaboration contributions

The £1.3m increase from the 2019-20 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. There is also an increase for MFSS and £0.5m is allocated in relation to an essential upgrade in the system for DEV2.

Capital financing

The £4.2m increase from the 2019-20 budget largely reflects a greater contribution from revenue in order to fund the capital programme. There are two large projects in 2020-21 which this contribution will help to reduce the impact of borrowing elsewhere.

Income

This has increased by £0.9m from the 2019-20 predominantly from the implementation of the violence reduction unit which is temporarily funded until March 2021. There has been a decrease in income expected from mutual aid and football but this is offset by the expectation of the knife crime funding to be continued, albeit at a lower value, in 2020-21.

Annex 5

2020-21 Commissioner's Total Budget – Thematic View (£m)

	2020-21								
	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	62.7	38.3	6.9	2.8	2.3	0.1	**113.1**	-	**113.1**
Staff	14.7	8.7	7.3	13.1	0.3	2.2	**46.3**	1.0	**47.3**
PCSO	5.6	0.1	-	-	-	-	**5.7**	-	**5.7**
	83.0	**47.1**	**14.2**	**15.9**	**2.5**	**2.3**	**165.1**	**1.0**	**166.1**
Overtime									
Officer	1.3	2.0	0.9	0.0	-	-	**4.2**	-	**4.2**
Staff	0.2	0.2	0.2	0.2	-	-	**0.8**	-	**0.8**
PCSO	0.1	-	-	-	-	-	**0.1**	-	**0.1**
	1.6	**2.2**	**1.1**	**0.2**	**-**	**-**	**5.1**	**-**	**5.1**
Other employee expenses	-	-	-	2.2	-	-	**2.2**	-	**2.2**
Medical retirements	-	-	-	4.9	-	-	**4.9**	-	**4.9**
	84.6	**49.3**	**15.3**	**23.2**	**2.5**	**2.3**	**177.3**	**1.0**	**178.3**
Other operating expenses									
Premises related	-	-	-	5.9	-	0.2	**6.1**	-	**6.1**
Transport	0.2	0.1	0.1	5.4	-	0.3	**6.1**	-	**6.1**
Communications & computing	-	-	-	8.6	-	0.3	**8.9**	-	**8.9**
Clothing & uniforms	-	-	-	0.6	-	-	**0.6**	-	**0.6**
Other supplies & services	0.3	1.0	0.5	3.3	-	0.4	**5.5**	0.3	**5.8**
Custody costs & police doctor	-	0.3	1.2	0.1	-	-	**1.6**	-	**1.6**
Forensic & investigative costs	0.1	0.8	1.2	-	-	-	**2.1**	-	**2.1**
Partnership payments	0.2	0.2	0.2	0.1	-	0.6	**1.3**	6.2	**7.5**
Collaboration contributions	-	0.7	10.8	-	-	-	**11.5**	-	**11.5**

	2020-21								
	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	-	-	-	8.5	-	-	**8.5**	-	**8.5**
	0.8	**3.1**	**14.0**	**32.5**	**-**	**1.8**	**52.2**	**6.5**	**58.7**
Total expenditure	**85.4**	**52.4**	**29.3**	**55.7**	**2.5**	**4.1**	**229.5**	**7.5**	**237.0**
Income	**(0.8)**	**(1.5)**	**(0.8)**	**(3.4)**	**(2.5)**	**(4.1)**	**(13.1)**	**(2.4)**	**(15.5)**
Net use of reserves	-	-	-	-	-	-	**-**	**-**	**-**
Total	**84.6**	**50.9**	**28.5**	**52.3**	**0.0**	**0.0**	**216.5**	**5.1**	**221.6**

Nottinghamshire

POLICE & CRIME COMMISSIONER

Capital Programme 2020-2025

January 2020

1. Introduction

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

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

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

2. Capital Programme 2020-21

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

It is currently estimated that there will be approximately £5.581m slippage from 2019-20 capital programme into 2020-21, these figures will be re-evaluated and confirmed at the end of the financial year.

The detailed programme, proposed by the Force, for 2020-21 is provided in **Appendix A.**

The proposed programme is summarised in the table below:

Capital category	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Assets	28.270	10.823	2.613	2.174	2.240
IT	5.212	4.384	2.344	0.230	0.774
Other	1.107	1.250	1.058	0.508	0.693
Total	**34.589**	**16.457**	**6.015**	**2.912**	**3.707**

Inflation has been added over the life of the 5 year programme to show what we expect the impact to be based on current assumptions.

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 and a Business Case in January 2017 highlighted that the existing Bridewell was in need of major refurbishments and that it did not and could not comply with the then current Home Office standards and recommendations (which have since been succeeded by even more stringent criteria) and 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.

Continuation of the joint headquarters based on the existing Police FHQ site; this work will provide further efficiencies for the estate. Planning permission has been granted and preliminary building work has started whilst detailed plans are completed and contracts awarded.

Work continues in line with the building condition survey from 2017 ensuring all our buildings are safe and fit for purpose. The work should be concluded during 2021-22, from 2022-23 onwards a new base-line budget has been set, increased with inflation for on-going building condition and capital maintenance works. A breakdown of these works can be found in **Appendix B**.

Within IT the technical refresh project continues with emphasis on replacement of agile devices, body worn video equipment and multi-functional devices. From 2021-22 the majority of this budget will be included in the medium term financial plan in revenue in line with Treasury Management Strategy. A breakdown of these works can be found in **Appendix B**.

Budgets for operation uplift have been included in line with government funding expectations. Fleet shows an increase in vehicles for the three years of the project with replacements built in, including inflation, for the following years. IT has also been included for three years with the expectation that this will be included within the MTFP as per the technical refresh project.

3. Medium Term Capital Programme

It is normal practice to provide an indication of the capital programme for 2020-21 to 2024-25. 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**.

4. Financing

Financing is included within the Treasury Management Strategy, included within today's 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 reflect a depreciation cost and a cost of borrowing. Currently, the cost of borrowing is interest only, but at some point in the future the capital sum will need to be repaid. Depreciation is allocated over the life of the asset. The portfolio of loans is currently being reviewed.

The Revenue budget for 2020-21 includes the estimated Minimum Revenue Provisions (MRP) based on expenditure prior to 1st April 2020, including an estimated cost of borrowing for existing borrowing and new borrowing planned in 2020-21.

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

Appendix A

Capital Programme 2020-21 to 2024-25

Priority	Project	Dept	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
1	ANPR Replacements	IS	0.096	0.099	0.102	0.136	0.140
1	Custody improvements	Assets	0.103	0.106	0.110	0.113	0.116
1	New Custody	Assets	12.400	3.000	0.253		
1	Joint FHQ new build (part Uplift)	Assets	12.000	5.017	0.250		
1	ESN	IS	0.800	0.824			
Total Priority 1 Projects			**25.399**	**9.046**	**0.715**	**0.249**	**0.256**
2	Vehicle & equipment replacement	Other	0.435	0.361	0.372	0.383	0.395
2	SARC New Build	Assets	0.800	0.500			
2	Hucknall EMAS Extension	Assets	0.017				
2	Operation Uplift – IT	IS	1.926	2.651	2.043		
2	Operation Uplift – Fleet	Other	0.572	0.787	0.607	0.125	0.298
2	Operation Uplift - Other	Other	0.100	0.102	0.079		
2	Building condition & maintenance	Assets	2.350	2.200	2.000	2.061	2.124
2	Estate Improvements	Assets	0.600				
2	Tech refresh & upgrades	IS	2.390	0.810	0.199	0.094	0.634
Total Priority 2 Projects			**9.190**	**7.411**	**5.300**	**2.663**	**3.451**

Total Capital Programme	**34.589**	**16.457**	**6.015**	**2.912**	**3.707**

Appendix B

BREAKDOWN OF TECH. REFRESH AND UPGRADES

Figures shown £'000 Sub Project Name	Year 2020-21	2021-22	2022-23	2023-24	2024-25
Agile Phase 3 - PCSO	135				
BWV Cameras	273				
Dell Laptop Refresh	270				
DIR Suites & Laptops	100				
DIU Nimble SAN	450				539
Hyper V Virtual Platform Hardware Refresh	90	92	93	94	95
MFD (Copiers)	200	103	106		
Nimble Storage Expansion	50	50			
Polycom Room Video Conferencing		360			
SEIM - IT Health Check Recommendations	250				
Storage Expansion	200	205			
Toughbook Refresh	72				
Workstations	300				
TOTAL TECH. REFRESH AND UPGRADES	**2,390**	**810**	**199**	**94**	**634**

BREAKDOWN OF BUILDING CONDITION & CAPITAL MTN WORKS

Figures shown £'000	Year				
	2020-21	2021-22	2022-23	2023-24	2024-25
Sub Project Name					
Mansfield Electrical Lighting	311				
Mansfield Prelims	93				
Oxclose Lane BWIC Windows	50				
Oxclose Lane Prelims	147				
Oxclose Lane PV Removal and Reassemble	20				
Oxclose Lane Roof Replacement	90				
Oxclose Lane Window Overhaul	400				
Radford Rd Building Fabric	220				
Radford Rd Electrical	199				
Radford Rd Mechanical	5				
Radford Rd Prelims	127				
Radford Rd TBC		300			
Radford Road BWIC Windows	50				
Radford Road Prelims	147				
Radford Road Roof Replacement	90				
Radford Road Window Overhaul	400				
TBC	0	1,900	2,000	2,061	2,124
TOTAL BUILDING CONDITION & CAPITAL MTN WORKS	**2,350**	**2,200**	**2,000**	**2,061**	**2,124**

The Nottinghamshire Office of the Police & Crime Commissioner

Capital Strategy

2020-21

Contents

Capital Strategy

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.

3. Capital Expenditure - Definition

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 Statement.

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.

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 Developing a Capital Programme

6. The Capital Budget Setting Process

6.1 Introduction

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.

6.2 Force Collaboration and Wider Sector Engagement

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.

6.3 The Capital Budget Setting Process and Timetable Overview

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.

6.4 Identifying Capital Expenditure/Investment Requirements

The need for a capital scheme will typically be identified through one or more of the following processes:-

- 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 (on a standardised form) and submitted into the budget setting process (6.3).

6.5 Business Case and Prioritisation

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.

Business case prioritisation is achieved by initially applying an agreed Force Prioritisation Matrix to the bid. The matrix reflects operational priorities, risk profile, benefits and costs.

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

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

6.6 Affordability and Financial Planning

The overall financial position of the Group and therefore the scope for future capital expenditure, must take into consideration the combination of the revenue budget, capital programme as well as the position on reserves.

The revenue Medium Term Financial Plan (MTFP) 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 revenue position influences the capital position in terms of potential affordability of support for Direct Revenue Financing (DRF) or debt charges (for external borrowing) whereas the capital bid process influences the revenue position in terms of both revenue consequences of capital programmes and also the requirement to financially support capital investment, either through DRF or external borrowing.

The extent to which the annual revenue budget, through the 4 year forecast, is expected to be able to support the capital programme is a key factor to overall financial planning and is becoming more so as other sources of funding cease to be available. The annual police capital grant provides only a small fraction of the funding required to maintain the Group assets.

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 revenue financing, use of reserves or external borrowing.

6.7 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 and Communication Technology systems and other core infrastructure for example, connected vehicle fleet and building assets.

The Group investment strategy will also be influenced by, and take account of National visions for policing, regional and local priorities.

6.8 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.

Section C Governance

7. Funding Strategy and Capital Policies

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

7.1 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.

7.2 Capital Receipts

A capital receipt is an amount of money which is received from the sale of an asset on the fixed asset register. They 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.

7.3 Revenue Funding

Recognising that the pool of assets available for sale is declining, Direct Revenue Funding (DRF) is seen as a funding alternative. However the revenue budget is under significant pressure and is currently overspent year on year. Therefore opportunities to budget for DRF are limited.

7.4 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.

7.5 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.

7.6 Third party capital contributions

Occasionally the Group will receive income from a third party (usually another authority) who has agreed to contribute towards an asset (eg. SARC), that the Group will then own.

7.7 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.

8. Procurement and Value for Money

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.

9. Partnerships and Relationships with other Organisations

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.

Section D Management

10. Management Framework

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.

11. 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.

12. Monitoring of the Capital Programme

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 projected expenditure with the approved capital budget.

For proposed in-year amendments to the capital programme, for new schemes not already included in the medium term capital plan, 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.

13. 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.

14. 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.

- **Funding Capacity Risk**

  This is the risk that identified project costs are either understated or escalate during the project lifecycle, for example if the project scope changes. This risk is mitigated as far as possible by the identified monitoring process and controls.

- **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.

  There is also a risk that external interest rates will rise, after the budget has been set, meaning that actual debt charges are higher than those included in individual business cases and more widely in the revenue budget. This risk will be managed by the Chief Finance Officer who will liaise with external Treasury Management advisors to determine the best time to take new external loans.

- **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 Risk**

  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.

15. Other Considerations

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

The Nottinghamshire Office of the Police & Crime Commissioner

Treasury Management Strategy

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2020-21

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 the Chief Finance Officer to the Police & Crime Commissioner (CFO). CIPFA defines treasury management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.2 Reporting requirements

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

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

- 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 2020-21

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 2020-21 to 2024-25

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	2018-19 Actual £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m
Capital Programme	**9.653**	**8.720**	**34.589**	**16.457**	**6.015**	**2.912**	**3.707**
Financed by:							
Capital Receipts	(2.715)	(2.682)	(2.524)	0.000	0.000	0.000	0.000
Capital Grants & Contributions	(0.753)	(0.758)	(0.200)	(0.100)	0.000	0.000	0.000
Direct Revenue Financing	0.000	0.000	(7.000)	0.000	0.000	0.000	0.000
Capital Reserve	(0.250)	0.000	(6.800)	(3.000)	(2.200)	0.000	0.000
Net Financing need	**5.935**	**5.280**	**18.065**	**13.357**	**3.815**	**2.912**	**3.707**

It is currently estimated that the capital programme for 2019-20 will slip by a total of £5.581m. The borrowing relating to this will also slip and a revised programme and its financing will be produced once this is confirmed.

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)	2018-19 Actual £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m
Total CFR	61.224	63.677	78.743	88.272	87.476	85.213	83.631
Movement in CFR	3.519	2.453	15.066	9.529	(0.796)	(2.263)	(1.582)

Movement in CFR represented by	2018-19 Actual £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m
Net financing need for the year (above)	5.935	5.280	18.065	13.357	3.815	2.912	3.707
Less MRP/VRP and other financing movements	(2.416)	(2.827)	(2.999)	(3.828)	(4.611)	(5.175)	(5.289)
Movement in CFR	3.519	2.453	15.066	9.529	(0.796)	(2.263)	(1.582)

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.

A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

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:

	2018-19 Actual £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m
Fund balances/Reserves	22.755	23.741	15.838	14.607	14.248	14.389	14.530
Capital Receipts	3.000	2.524	0.000	0.000	0.000	0.000	0.000
Provisions	3.936	3.936	3.936	3.936	3.936	3.936	3.936
Other	(2.720)	(2.720)	(2.720)	(2.720)	(2.720)	(2.720)	(2.720)
Total Core funds	**26.971**	**27.481**	**17.054**	**15.823**	**15.464**	**15.605**	**15.746**
Working Capital*	**(0.298)**	**(0.298)**	**(0.298)**	**(0.298)**	**(0.298)**	**(0.298)**	**(0.298)**
(Under)/Over borrowing	**(13.217)**	**(11.346)**	**(12.094)**	**(12.526)**	**(10.018)**	**(7.081)**	**(4.162)**
Expected Investments	**13.456**	**15.837**	**4.662**	**2.999**	**5.148**	**8.226**	**11.286**

*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	2018-19 Actual	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
	1.8%	1.9%	2.1%	2.7%	3.1%	3.3%	3.4%

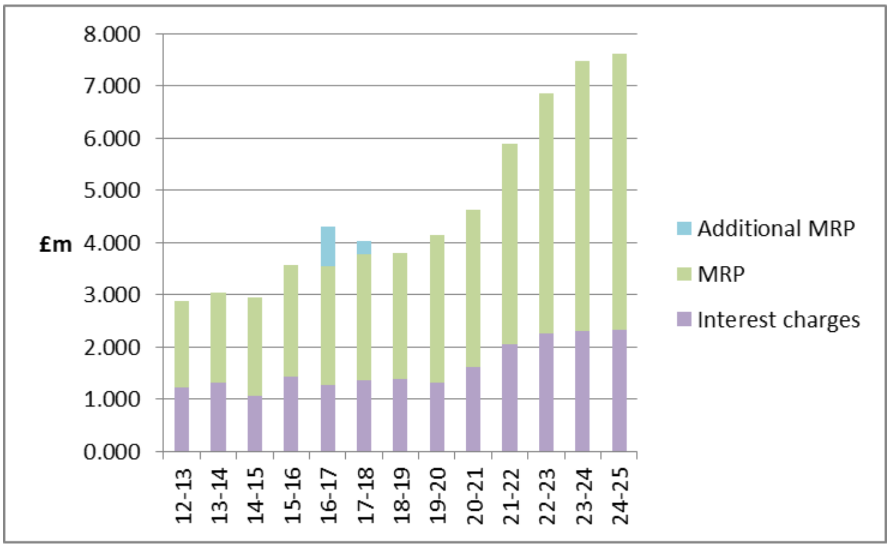
2.7 Incremental impact of capital investment decisions on council tax

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	2018-19 Actual	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
	£0.24	-£0.46	£1.17	£5.28	£8.53	£10.57	£11.18

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 2019, 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.

	2018-19 Actual £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m
External Debt							
Debt at 1 April	37.169	51.349	55.673	69.991	79.088	80.800	81.474
New Borrowing	15.000	5.280	18.065	13.357	3.815	2.912	3.707
Borrowing Repaid	(0.820)	(0.956)	(3.747)	(4.260)	(2.103)	(2.238)	(2.370)
Movement in Borrowing	14.180	4.324	14.318	9.097	1.712	0.674	1.337
Debt as at 31 March	**51.349**	**55.673**	**69.991**	**79.088**	**80.800**	**81.474**	**82.811**
Capital Financing Requirement	61.224	63.677	78.743	88.272	87.476	85.213	83.631
Other longterm liabilities	3.342	3.342	3.342	3.342	3.342	3.342	3.342
Underlying Borrowing Need	64.566	67.019	82.085	91.614	90.818	88.555	86.973
Under/(over) borrowing	**13.217**	**11.346**	**12.094**	**12.526**	**10.018**	**7.081**	**4.162**
Investments	13.456	15.837	3.862	2.499	5.148	8.226	11.286
Net Debt	**37.893**	**39.836**	**66.129**	**76.589**	**75.652**	**73.248**	**71.525**

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 2020-21 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.

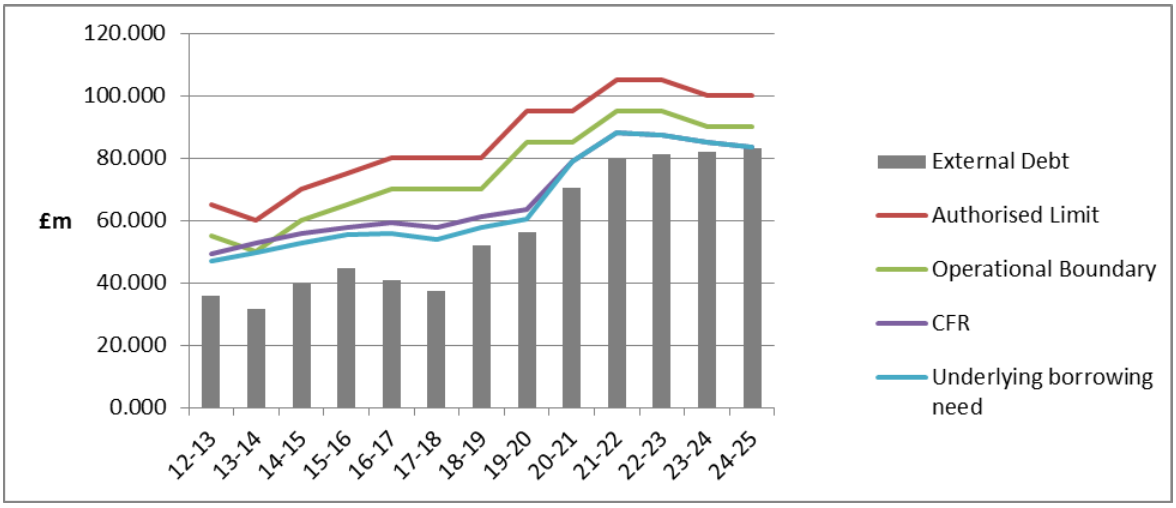
Operational Boundary	2019-20 Forecast £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Actual £m	2024-25 Actual £m
	85.000	85.000	95.000	95.000	90.000	90.000

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	2019-20 Forecast £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Actual £m	2024-25 Actual £m
	95.000	95.000	105.000	105.000	100.000	100.000

The graph 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 23rd Decrember 2019.

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a "gradual pace and to a limited extent". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment.

Such volatility could occur at any time during the forecast period. In addition, PWLB rates are subject to ad hoc decisions by **H.M. Treasury** to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9th October 2019.

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.**
- **Other minority EU governments.** Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions, which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but this time centred on the huge debt binge accumulated by corporations during the decade of low interest rates.
- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Investment and borrowing rates

- Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.

- Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management

While the NOPCC will not be able to avoid borrowing to finance new capital expenditure, replace maturing debt or avoid the complete rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

Against this background and the risks within the economic forecast, caution will be adopted with the 2020-21 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 2020-21 to 2022-23		
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 2020-21 to 2022-23		
	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

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

Following the decision by the PWLB on 9th October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bonds Agency (no issuance at present but there is potential)

The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing, but our advisors will keep us informed.

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. Therefore, 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 £0.090m 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.

UK banks – ring fencing - The largest UK banks, (those with more than £25bn of retail/Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Commissioner will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered) will be considered for investment purposes.

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 23rd December 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 including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.00%

The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.

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

- 2019-20 0.75%
- 2020-21 0.75%
- 2021-22 1.00%
- 2022-23 1.25%
- 2023-24 1.50%
- 2024-25 1.75%
- Later years 2.25%

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	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £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