For Information and Decision	
Public/Non Public*	Public
Report to:	Audit and Scrutiny Panel – for information
Date of Meeting:	24 February 2021
Report of:	The Chief Finance Officer
Other Contacts:	Head of Finance
Agenda Item:	11

Precept and Budget Reports 2021-22

1. Purpose of the Report

1.1 Members are aware that the Police & Crime Panel have considered these reports and agreed to the proposed precept increase for 2021-22.

1.2 These reports are provided to Members of the Audit & Scrutiny Panel for reference and information.

2. Recommendations

2.1 Members are requested to note the reports provided.

3. Reasons for Recommendations

3.1 Statutory requirement and good financial governance.

4. Summary of Key Points

4.1 In providing the provisional settlement for Policing the Minister has assumed that Police & Crime Commissioners will take advantage of the temporary relaxation in the referendum principles in respect of setting a precept.

4.2 The continued precept freedoms allow a balanced budget to be set with all increases for inflation and pay awards being met. Additional Police Grant has been received for the Uplift in Police Officer numbers required.

4.3 The Minister also requires further efficiencies to be met in 2021-22 and these have been set nationally at £120m. These have been accounted for in the grant settlement and savings due from the work of the Blue Light Company.

4.4 The other reports provided for information are:

- Revenue Budget Report 2021-22
- Capital Programme 2021.26
- Financial Strategy
- Capital Strategy

- Treasury Management Strategy
- Reserves Strategy

4.5 The Financial Strategy provides the latest prediction for balancing the budget over the next five years.

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

4.7 The Revenue budget is a balanced budget report. This report provides additional police officers to communities across the City and County.

4.8 The Capital Programme provides detail on proposals for 2021-22, with specific plans relating to buildings and ensuring they are fit for purpose. An indicative capital programme to 2022-26 is also provided. But the schemes are subject to full business cases being approved.

4.9 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. This continues to be developed and we hope to bring a finalised product in the Summer 2021.

4.10 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.

8.2 One of the biggest risks will be the reintroduction of pay awards in future years. Without grant to support the additional cost there will be a cliff edge in financing 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

Report for Decision:

- Precept report 2021-22

Reports for Information:

- Revenue Budget Report 2021-22
- Capital Programme 2021-26
- Financial Strategy
- Capital Strategy
- Treasury Management Strategy
- Reserves Strategy

Nottinghamshire

POLICE & CRIME COMMISSIONER

Precept 2021-22

January 2020

The Police & Crime Commissioner's

Precept 2021-22

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 £703m in the form of grant for the uplift in police officer numbers and increased council tax freedoms.
- Core Police Grant will increase to reflect the number of officers recruited for Uplift.
- Precept freedoms allow for a £15 increase on Band D properties, raising £288m nationally if all Commissioners take this up.
- Counter Terrorism will see an increase with a total of £914m set aside for this service.
- Funding of the Uplift of 6,000 officers by March 2022 will continue to be provided through core grant and specific grant based on performance.
- Continued support to cover the increase in pension costs.
- Continued support for National programmes such as ESN and NLEDs.
- £120m efficiency savings across the sector, with £20m from Blue Light Commercial.

Introduction

In light of the assumptions and opportunity made available by the Minister the Nottinghamshire Police & Crime Commissioner is proposing a precept increase of £14.94 for the 2021-22 financial year.

This increase in the precept supports the budget report and Commissioners commitment to increase in police officer numbers in our neighbourhoods. There continues to be a focus on reducing Hate Crime, Knife Crime and the 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 provided funding specifically, to pilot electric police vehicles within the force. We now have 2 electric cars within the City (where use and infrastructure are better suited) and are in the process of expanding the use of electric bikes. 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 2021-22.

Government Assumptions
In November the spending review announcement provided more detail than usual as to what could be expected in the December settlement. It was announced that there would be further precept freedoms of up to £15 on a Band D property. The Government intention for this was to prevent reverse civilianisation. This was a possibility that had increased in risk, if there was a need to recruit the 20,000 without support for pay awards and inflation for existing officers and staff.

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. 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 (Specific Grant). The planned recruitment has been re-phased over the last two years of this plan, with 25% of the officers planned and the grant funding for 2021-22 being pushed back to 2022-23.

Secondly, the £15 precept freedom indicated is for one year ahead of the next (delayed again) 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.

The additional Treasury Grant for the remainder of the pensions funding gap continues for 2021-22; as does the Home Office additional grant for Pensions.

Future outlook
We are in unprecedented times all of which have a major impact on the Government funding available for the public sector. It is reassuring to hear that Policing remains priority, but this is alongside the NHS, the cost and repayment in relation to COVID and the cost of BREXIT.

The Government remains committed to being able to balance the budget and reduce borrowing. But the increased borrowing for COVID against an economy that is struggling and where redundancies in September 2020 reached a record high means that the repayment period for borrowing is likely to be long term.

In recent years the Home Office has relied on Police and Crime Commissioners to take advantage of Council Tax freedoms and set above inflation increases to cover some of the inflationary costs no longer provided for within the Policing Grant. However, the impact of COVID has been significant on Council Tax collection funds.

Firstly, there is the impact of non-collection. There has been a significant reduction on the amount collected and this has been compounded by the courts being closed. There is now a significant deficit on collection estimated for 2020-21 and the Government is allowing for this to be re-imbursed to Precepting Authorities, such as the Police, over a 3 year period. This compares with estimated surpluses on collection previously assumed. The Spending review announcement has provided funding for 75% of the deficit with the remaining 25% to be split over the next 3 years.

A further impact on the Council Tax will be the calculation of the tax base going forward. This time last year we were assuming a tax base increase in future years of over 1% year on year. However, this is unlikely as there are now more people unemployed and receiving benefits; there have been less new builds than planned in this financial year and the economy will see this picture continue into the medium term; and the Billing Authorities will be assuming lower collection rates based upon this year and the possibility of further COVID peaks.

The Government is also keen to ensure that it reaches its target of an additional 20,000 Police Officers by 2023. But if this comes without support for funding of pay awards, inflation, pension increases and adequate funding for the major ICT programmes such as ESN; then all that happens is that officers end up in non-policing roles – a perverse structure and a costly one.

During the medium term there will be revaluations of the Police Pension Scheme and the LGPS Scheme. It is envisaged that both will have further impacts on the employers rate and therefore the funding available. This will be on top of the cost of the McCloud case being implemented.

A further impact is the cost of the national ICT programmes such as ESN and NLEDs. These programmes are over budget and delayed significantly. The result is that the Home Office want to transfer the additional costs of their delay onto Forces to pick up; particularly costs of retaining older systems for longer.

Supporting Reports

The Budget Report and the Medium Term Financial Strategy Report on today's agenda details further the plans for 2021-22 and beyond.

The detailed budget for 2021-22, 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 2021-22 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.
- **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 2021-22 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 £14.94 increase in the Police & Crime Precept on the Council Tax Band D.
- **The impact on Council Tax** - this is covered in **Section 7** of this report.
- **The risk of referendum** – the limit set for requiring a referendum is a £15 increase on the precept for all Police & Crime Commissioners. The proposed increase of £14.94 is in line with this years change (further detail is provided in **Section 6**).

1. COUNCIL TAX BASE

For 2021-22 the Billing Authorities continue with the local Council Tax Support Schemes introduced in 2013-14. The impact of COVID has affected current collection rates by significantly reducing them and is a factor in the setting of the tax base for the next year. In addition to this the Billing Authorities have considered the unemployment and benefits demographics and the likelihood of further non-collection when setting the tax base for 2021-22.

The Billing Authorities have therefore estimated a slight increase compared to previously higher estimates on the tax base. The actual tax base has increased by 0.25% overall, this is less than last year's increase of 1.11%.

Tax base	**Band D Properties 2020-21 No**	**Band D Properties 2021-22 No**	**Change %**
Ashfield	33,695.30	33,731.70	0.11
Bassetlaw	35,373.06	35,771.49	1.13
Broxtowe	34,039.14	34,217.46	0.52
Gedling	37,387.44	37,389.96	0.01
Mansfield	29,407.70	29,512.20	0.36
Newark & Sherwood	39,229.76	40,002.05	1.97
Nottingham City	67,360.00	66,396.00	(1.43)
Rushcliffe	43,987.70	44,259.60	0.62
Total	**320,480.10**	**321,280.46**	**0.25**

2. COLLECTION FUND POSITION

Each billing authority uses a Collection Fund to manage the collection of the Council Tax. This year significant deficits will be declared and this will be 75% Government funded and will be collected over the following 3 years. For 2021-22 the overall surplus totals £0.123m after the spreading adjustment. A breakdown is provided in the table below:

	Collection Fund	
Surplus/(deficit)	**2020-21** **£**	**2021-22** **£**
Ashfield	(47,000)	(63,442)
Bassetlaw	55,342	(36,526)
Broxtowe	75,869	(51,430)
Gedling	Nil	(58,076)
Mansfield	103,363	135,000.64
Newark & Sherwood	Nil	380,521.00
Nottingham City	176,866	(122,285)
Rushcliffe	(103,300)	(49,231)
Total	**261,140**	**134,531.64**

The deficits declared above will form part of the core funding available. The Local Council Tax Income Guarantee (75% deficit) will be treated as specific grant and included in the Net Revenue Expenditure figure.

3. GRANTS

The main Police Grant has remained the same for several years and has recently been increased by the funding for Uplift Officers recruited. The £120m efficiency target has also been netted in the core grant, thereby alleviating pressure to deliver this during the year. The total core grant now stands at £145.0m.

Council Tax Legacy Grant is received by Commissioners for each Policing area. There is no change in the Legacy Grant for 2021-22 at £9.7m. This grant will be considered as part of the Funding Formula Review.

As part of the Uplift programme for 20,000 additional officers nationally, it is anticipated that a core element of this grant will transfer into the main Police Grant. This is included in the £145.0m above.

Together the main Police Grant (including any transferred Uplift Grant) and the Legacy Grant form the core funding for Nottinghamshire Policing.

In addition to Core funding there are specific grants which fund specific elements of expenditure. The main ones of these include initial Uplift Grant, Uplift Performance Grant and Pension Grants. These are netted against Police expenditure.

The Commissioner also receives specific funding from the Ministry of Justice which is netted against expenditure for Victims. This funding has many facets and covers areas such as Domestic Violence, Rape Support, COVID support, ISVA funding and Sexual Violence funding.

Pension Grant (specific grant) for the impact of the McCloud case and last revaluation will continue to be funded at existing levels.

The Government has also provided grants to support Council Taxbase reductions in estimates. This has been done through Council Tax Support Grant to be paid to all precepting authorities as a s31 Grant. The current estimate for the Commissioner is that he will receive £1.5m for this. In addition to this there will be support for 75% of the deficit on the collection fund for this year. The net surplus on collection will be transferred to reserves to meet the 25% unfunded deficit spread to the following two years. Both grants have been factored into the calculations.

All major grants are summarised in **Appendix A**.

4. CONSULTATION

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

In fulfilling these requirements, the PCC's Police and Crime Survey obtained a robust and representative sample of views from 4,073 residents across Nottinghamshire over four quarterly waves of fieldwork in 2020. The sampling scheme for the survey provided good geographical coverage and responses that were representative by age, gender, ethnicity and deprivation. The PCC also commissioned a series of four virtual focus groups across to obtain further qualitative insight into resident's views on policing priorities and the precept for 2021-22. The focus groups engaged a total of 31 participants across the four Community Safety Partnership areas of Nottingham City, South Nottinghamshire, Bassetlaw, Newark and Sherwood and Mansfield and Ashfield.

The Police and Crime Survey found no statistically significant difference between the proportion of residents that support an increase in the precept for policing (37.4%) and the proportion that do not (37.3%) in 2020. Excluding those that did not know, support for an increase in the precept for policing remains strongest in the South Nottinghamshire community safety partnership area (55.7%) and in particular, the Rushcliffe (61.1%) and Broxtowe (53.8%) local authority areas. Support for an increase remains lowest in the Mansfield and Ashfield CSP area (47.0%) and the local authorities of Ashfield (45.0%) and Bassetlaw (46.4%).

Around a quarter (25.2%) of all respondents said that they 'did not know' or 'need more information' in order to determine whether they support a rise in the precept or not. This proportion has increased from 23.4% over the last year, continuing the upward trend seen since 2017-18 (18.7%). Focus groups held in January 2021 enabled more detailed qualitative engagement with a diverse range of residents which includes an overview of the force's financial position. The vast majority of participants supported a £15 increase in the precept for policing, particularly in increasing front line policing. All focus groups, however, also shared concerns regarding the financial impact that the pandemic has had on some individuals and communities.

All groups also highlighted the importance of evidencing the impact of any increase in the precept in terms of additional services or improved performance. Some felt that a failure to do this could potentially be damaging to the current positive perception of Nottinghamshire Police that most participants had.

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 2021-22 the principles state that, for Police & Crime Commissioners, an increase of more than £15 in the basic amount of council tax between 2020-21 and 2021-22 is excessive.
For 2021-22 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 2021-22 estimated calculation:

$$\frac{£78,475,965.16}{321,280.46} = £244.26$$

(£14.94)

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 2021-22 result in a Police and Crime Precept on the Council Tax of £244.26 for a Band D property, representing an increase of £14.94.

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

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

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

	2020-21 Budget £m		**2021-22 Budget £m**		**Increase/ Decrease £m**	
Budget*	219.6		233.2		13.6	(+)
External Income*	146.1	(-)	154.7	(-)	8.6	(-)
Collection Surplus/deficit	0.3	(-)	0.1	(-)	0.2	(+)
Reserves	0.3	(+)	0.1	(+)	0.2	(-)
Precept	**73.5**	**(-)**	**78.5**	**(-)**	**5.0**	**(-)**

'* Revised to reflect advice on the treatment of performance and pension grants.

	320,480	321,280	800
Council Tax Band D	£229.32	£244.26	£14.94
Council Tax Band A	£152.88	£162.84	£9.96

The overall Police & Crime Precept to be collected on behalf of the Police & Crime Commissioner for 2021-22 is:

	£m	
Budgeted Expenditure	233.2	(+)
Less income from:		
Police & Crime Grant	145.0	(-)
Legacy Grant	9.7	(-)
Collection Fund surplus/deficit	0.1	(-)
Net contribution to/from Balances	0.1	(+)
Police & Crime Precept on the Council Tax	78.5	(-)

Appendix A compares the Government Grant between 2020-21 and 2021-22.

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

Police & Crime element of the Council Tax

Band	**2020-21 £**	**2021-22 £**
A	152.88	162.84
B	178.36	189.98
C	203.84	217.12
D	**229.32**	**244.26**
E	280.28	298.54
F	331.24	352.82
G	382.20	407.10
H	458.64	488.52

Amounts to be raised from Council Tax in each billing authority area 2021-22:

	Precept amount to be collected £	Collection Fund Surplus/(Deficit) £	Total amount due £
Ashfield	8,239,305.04	(63,442.00)	8,175,863.04
Bassetlaw	8,737,544.15	(36,526.00)	8,701,018.15
Broxtowe	8,357,956.78	(51,430.00)	8,306,526.78
Gedling	9,132,871.63	(58,076.00)	9,074,795.63
Mansfield	7,208,649.97	135,000.64	7,343,650.61
Newark & Sherwood	9,770,900.73	380,521.00	10,151,421.73
Nottingham City	16,217,886.96	(122,282.00)	16,095,601.96
Rushcliffe	10,810,849.90	(49,231.00)	10,761,618.90
Total	**78,475,965.16**	**134,531.64**	**78,610,496.80**

Collection Dates

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

	£
2021	
19 April	7,861,050.00
27 May	7,861,050.00
02 July	7,861,050.00
05 August	7,861,050.00
10 September	7,861,050.00
15 October	7,861,050.00
19 November	7,861,050.00
2022	
05 January	7,861,050.00
03 February	7,861,050.00
10 March	7,861,046.80
	78,610,496.80

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.

Information provided in the Spending Review and Settlement announcement have been fully factored in to these estimates.

The replenishment of reserves has progressed and should be available to finance the new building on the Joint HQ site.

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 £14.94 band D increase in Council Tax for 2021-22.

APPENDIX A

Year on year comparison of settlement grants Nottinghamshire

Grant	2020-21 £	2021-22 £
Police Core grant (HO)	78,514,341	90,477,050
Ex-DCLG Funding Formula	48,387,121	54,519,823
Sub-total core grant	**136,398,960**	**144,996,873**
Legacy Grant	9,726,194	9,726,194
Total Core Funding	**146,125,154**	**154,723,194**
Council Tax Support Grant		1,500,000
Local Council Tax Income Guarantee*		543,398
Pensions Grant	2,028,216	2,028,216
Specific Grant *	2,999,210	1,783,000
Total Key Government Funding	**151,152,580**	**160,577,808**

*Latest estimate

In addition to the above Nottinghamshire receives Capital Grant. For 2021-22 this has remained at £200,000.

Nottinghamshire
POLICE & CRIME COMMISSIONER

Budget 2021-22

NOTTINGHAMSHIRE
POLICE
PROUD TO SERVE

January 2021

After a significant period of challenging settlements and difficult to deliver annual budgets the budget for 2021-22 looks more promising from the recent settlement and enables the Force to look forward more positively in terms of investing in front line officers, staffing, estates and technology.

Over the past few years the medium term plan forecasting continues to prove insightful for decision making and enabling effective and value for money decisions to be made to provide the best value to the tax payer of Nottinghamshire. It also allows Nottinghamshire Police to be financially sustainable as we look and plan for the future.

In 2019 the government announced a commitment to achieve an uplift of 20,000 police officers over the period to 2022-23. Following the spending review in Nov-20 this is now looking to be by 2023-24. However, Nottinghamshire are well placed in achieving this and ahead of schedule to provide more front line officers in the areas that need it most which is fully supported by both the PCC and Chief Constable.

This accelerated recruitment of officers in advance of the Government's target has allowed the Force to maximise performance grant payments and invest in to achieve a more agile workforce. This has then played a significant part in helping to manage the impact of the pandemic, ensuring we can deploy officers and staff in a more dynamic way resulting in the service being less affected by Covid-19 related absences than it otherwise would have been.

During 2020-21 the PCC continued to fund safe and effective victim support services. He further developed sexual violence support during the year, with specific action including:

- work with clinical commissioning groups and the City and County Councils to secure sustainable funding of nearly £1m pa for sexual violence therapeutic support services;
- work with survivors to co-produce the therapeutic support service;
- co-commissioning a new sexual violence hub and therapy service with Bassetlaw Clinical Commissioning Group, Nottingham and Nottinghamshire Clinical Commissioning Group, Nottingham City Council and Nottinghamshire County Council. The new service began operating on 2 January 2021.

The Covid pandemic and the measures taken to slow its spread have presented a variety of complex challenges for all victim support services, particularly domestic abuse. Whilst lockdown and other restrictions have been necessary, they are widely considered to have exacerbated and escalated the risk of domestic abuse in some situations. The PCC's Independent Sexual Violence Adviser services have faced increased demand from survivors whose court cases are being substantially delayed.

The OPCC has worked closely with local authorities to ensure that all PCC commissioned victim support services responded quickly and well to the Covid pandemic. Support services (with the exception of sexual assault referral centres) were swiftly adapted to telephone and online support. Sexual assault referral centres adapted services and have remained fully open during Covid. Some victim support initiatives (for example group programmes) have been put on hold, however the vast majority of victims have continued to access support remotely. Support services incurred additional costs in equipping staff and adapting services to work remotely and in meeting additional and changed demand. To help them manage, the PCC successfully secured £954,429 of Ministry of Justice emergency Covid funding for both commissioned and non-commissioned domestic and sexual violence support services.

The PCC extended his contracts for Victim CARE and both sexual assault referral centres. Victim CARE will be recommissioned during 2021 and the SARCs during 2022. The PCC also extended his pilot of non-domestic stalking, as the service was heavily impacted by the March/April lockdown.

During 2020 the PCC published the final consultation draft of his paper "Improving the response to domestic abuse in Nottinghamshire, a whole systems approach". The final paper, which will include an action plan, will be published in February 2021.

Finally, in line with an action identified in the domestic abuse paper, the PCC began to expand the range of domestic abuse prevention activity in Nottinghamshire. He successfully secured just over £200k of funding from the Home Office to pilot the delivery of domestic abuse perpetrator programmes in Nottinghamshire. The programmes will begin in January/February 2021. They will be independently evaluated and contribute to the national evidence base.

Nottinghamshire were one of 18 areas in the country to receive funding from the Home Office's Serious Violence Fund in 2020-21 to continue strategic leadership and coordination of violence reduction activity, working with a number of multi-agency partners, including public health, youth justice, Probation, prisons and police.

The Violence Reduction Unit continue to commission and deliver interventions aimed at young people at risk of being impacted by serious violence based on the principle that intervening early to prevent issues emerging is the most effective way to ensure children, young people, and communities in Nottinghamshire remain a safe place to live and work.

During 2020/21 the VRU have commissioned 28 separate projects for children and young people aged 5- 25 years, with 1539 unique individuals having been supported. To date, positive outcomes have been shown with a reduction in violent incidents, increased access to pathways of support and increased emotional resilience and wellbeing. Of the £880,000 budget allocated to the VRU, 30% of funding has been spent on commissioned interventions.

A further 12% of the funding has been spent on evaluation and research to increase the national evidence base to understand what works to tackle serious violence, including assessment of domestic violence perpetrator focussed interventions and the impact of social media on serious violence.

As of the end of Q3 the VRU have spent £499,386 against a forecast spend of £530,132, showing a variance of £30,746. Underspend to date can, in the main, be attributed to delays delivery of activity due to the Covid-19 pandemic, it is anticipated this will be rectified in Q4.

In Nottinghamshire we have ambitious recruitment plans which are delivering at pace alongside some sound and tested plans which continue to deliver savings in the short, medium and long term. The drive for efficiency in support costs, either corporate or policing related will continue. The aim is to ensure our costs in respect of these activities are amongst the most efficient when compared to other police forces, and the latest VFM profiles show that this ambition is being realised.

There are some very sound and tested plans in place to deliver savings in the short, medium and long term. As a consequence of the improved budgeting performance, the introduction of the Annual Departmental Assessment reviews, more certainty of Central Government funding, and greater discretion in the setting of local taxation levels, the finance and operating model of Nottinghamshire Police is considered to be above the minimum standards and is sufficiently robust to be sustainable in the short, medium and long term.

Over the past few years the Force has invested in increasing the number of front line police officers, targeted a reduction in rural and knife crime and invested in new purpose built buildings and equipment to meet the future needs of the business.

2020-21 has seen the Force make the first steps in moving away from a shared service provision for finance, payroll, HR and L&D to enable us to be more efficient in providing a service that benefits the public of Nottinghamshire and allow and staff and officers to work more effectively.

We continue to invest in specialised areas such as cyber crime, fraud, modern slavery and county lines teams to help protect those most vulnerable to this and develop ways in which to combat this in the future.

The activities in respect of 2020-21 detailed above continue to be supported in 2021-22 with appropriate funding being allocated within the base revenue budget.

BUDGET 2021-22

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 2021-22	**2021-22 £m**
Core grants & funding	
Police & Crime grant	(145.0)
Council Tax legacy grant	(9.7)
Sub-total core grants	**(154.7)**
Precept	**(78.5)**
Collection fund (surplus)/deficit	(0.1)
Contribution to Reserves	0.1
Total funding available	**(233.2)**

There is also a £1.8m ring fenced grant in relation to the uplift of an extra 20,000 officers nationally, Nottinghamshire's allocation was £3m in 2020-21. 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 it will be utilised to recruit officers ahead of the target set by government.

Final confirmation of grant settlement will be laid before Parliament in February 2021.

The Precept Freedom of up to £15.00 for a Band D property (Referendum Limit) was announced early this year as part of the Spending Review. This early announcement was much appreciated as it allowed time for appropriate financial management. 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.

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 be 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 meet its budget pressures and allows some further investment in frontline resources, for example having 100 additional officers working on the front line by March 2022. This builds on 350 additional officers (as at 31st March 2021) 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 £0.9million 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. These consist of mobile ANPR, cloud based storage solutions, estate reviews, cyber improvements as well as various software solutions to help the force become more efficient.

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 63 staff roles will be recruited during 2021-22.

Further funding of £0.3m has been allocated to support demand and activity changes identified during the year as business cases are developed and where these meet organisational requirements funding will be supplied from within this £0.3m total.

We continue to develop the future strategy for corporate IT services (Op Regain) and this will gather further pace in 2021-22 as we look to implement these new systems by April 2022. This project is to ensure future systems are fit for purpose and provide value for money.

The Commissioner and Chief Constable also have allocated £0.15m 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.

We continue to invest in our capital expenditure plans and this year will see the conclusion and delivery of the custody facility as well as further significant progress in a 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 inevitably means efficiencies have to be identified and delivered in order to balance the budget. In 2021-22 £2.5m cashable efficiencies are identified and have been allocated to specific areas within the base budget.

Expenditure 2021-22	**2021-22 £m**
Previous expenditure	221.6
Non Pay inflation increases	1.1
Pay increases	9.4
Changes in demand	0.9
Investment	2.7
Sub-total expenditure	**235.7**
Efficiencies	(2.5)
Total net expenditure	**233.2**

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

2. 2021-22 Budget breakdown

Annex 1 details the proposed expenditure budget for 2021-22. The proposed revenue budget is £232.9m.

Net expenditure budget	**Initial 2021-22 £m**	**Efficiencies £m**	**Base 2021-22 £m**	**Note**
Employee	152.6	0.6	152.0	2.1
Premises	7.3	0.3	7.0	2.2
Transport	6.7	0.0	6.7	2.3
Comms and Computing	9.7	0.9	8.8	2.4
Supplies & services	10.7	0.2	10.5	2.5
Agency & contract services	22.1	0.0	22.1	2.6
Pensions	37.1	0.0	37.1	2.7
Capital financing	10.2	0.0	10.2	2.8
Income	(20.7)	0.5	(21.2)	2.9
Net Expenditure	**235.7**	**2.5**	**233.2**	**Annex 1**

An alternative thematic view of the 2021-22 budget is also detailed at Annex 5.

2.1 Employee related expenditure

The 2020-21 budget provided for continued officer and staff recruitment.

In line with the government uplift programme Nottinghamshire will have also recruited an additional 257 officers by March 2021 for deployment in 2021-22. During this year an additional 46 staff members will also be added to the establishment. This increase continues on the good work from last year.

There isn’t a pay award for officers and staff factored in to the numbers for 2021-22 following the government announcement at the spending review in November 2020 although those on salaries less than £24,000 have been allocated a £250 uplift. Employee expenditure accounts for approximately 80% of the total expenditure budget.

Annex 2 details the budgeted staff movement between the current year and 2021-22. Annex 3 details the budgeted police officer, police staff and PCSO numbers for 2021-22.

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 becomes increasingly less fit for purpose. This will complete in 2021-22 and be a welcome addition to the estate in providing an effective and efficient environment for officers and staff to operate in.

A new building project commenced in 2020-21 for a joint headquarters building with Fire on the current Police Headquarters site. This should become operational towards the end of 2021-22. 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 2021-22 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

During the latter part of 2020-21 the Force mutually agreed the exit from its vehicle PFI contract. This agreement was expensive and required careful management to ensure the most advantageous service from the supplier.

As a result of this change the Force has purchased back all vehicles, along with associated equipment and stock. 17 staff members have TUPE transferred back to Force from the supplier – these staff were all associated with the delivery of the repairs and maintenance elements of the contract.
Due to the timing of the change the financial impact has not been reflected in the detailed budget build; it is not however anticipated that this will have any impact on the net expenditure total for 2021-22.

2.4 Comms & Computing expenditure

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

Some of the IT systems that the Force uses are provided through national contracts that the Home Office then 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 the 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 2021-22.

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 1.0% has been applied in 2021-22, 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	2021-22 £m
Agency costs	0.2
Collaboration contributions	11.2
Community safety	5.5
Other partnership costs	5.2
Total	**22.1**

The £0.2m for agency costs relates to resourcing specific skills to assist in the transition of MFSS back to force as part of Op Regain. 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 £11.2m for 2021-22.

Analysis of Collaboration contributions	2021-22 £m
EMSOU	3.8
Major crime	0.3
Tactical surveillance unit	0.6
Forensics	1.5
EMOpSS Air Support	0.6
EMCJS	0.3
Learning & development	0.6
Occupational health unit	0.5
Legal	0.5
Multi Force Shared Services (MFSS)	2.5
Total	**11.2**

2.7 Pensions

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

The budgeting for medical retirements has seen the number of cases and the associated costs increasing over time, the 2020-21 budget was increased by £0.2m reflecting this trend. For 2021-22 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 2021-22 has been prioritised as per 2020-21 to ensure that schemes included are not only reflective of need but also are realistic in deliverability.

In line with this approach schemes proposed in 2021-22 are 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.

2.10 Use of reserves

There are no plans to use reserves in 2021-22.

2.11 Variation to 2020-21 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 2020-21 and 2021-22.

3. Efficiencies

3.1 2020-21 Efficiencies

As part of the 2020-21 budget the following efficiencies were 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**

3.2 The Commissioner is of the view that continuingly achieving efficiencies remains challenging. However, he appreciates that the level of efficiencies now required each year has reduced significantly and as part of any annual review should be manageable.

3.3 2021-22 Efficiencies

As part of the 2021-22 budget the following efficiencies are required in order to set a balanced budget.

Efficiencies 2021-22	£m
Pay savings	0.6
IT	0.9
Estates	0.3
Income	0.5
Covid impact	0.2
Total	**2.5**

Plans are in place to secure the above efficiencies in the 2021-22 budget and there is a high degree of confidence that these will be fully secured as planned.

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 plans around the ADA investment options.

The OPCC is not showing any year on year savings (nor any increases), but has absorbed inflation and growth of approximately £0.15m in its flat budget.

3.5 There are always risks and there needs to be consideration that these are estimates of spend. We are also awaiting on confirmation on specific grants which could go up, down or stay the same.

From a national project perspective we are aware that these can overrun and therefore create additional expenditure in force where costs are pushed down from the Home Office.

Only having a one year settlement causes issues with longer term planning and certainty and there is a possibility of a further one year CSR next year which will add greater risk to the planning procedure.

4. External Funding

There is an assessment of the financial risk in respect of external funding currently provided. In 2021-22, 2 officers and 80 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 2021-22 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 there are 26 police officers and 8 staff FTE’s seconded out of the organisation in 2021-22. This compares with 33 officers and 7 staff FTE’s seconded in 2020-21.

5. Robustness of the estimates

The Chief Finance Officer to the Chief Constable and his staff have worked closely with the Budget Officers of the Force and OPCC to obtain assurance on the accuracy of the estimates provided. There have been weekly meetings between the Commissioner, Chief Constable and their professional officers as well as extensive dialogue with the Chief Finance Officer to the Commissioner.

Information provided in the Spending Review and Settlement announcement have been fully factored in to these estimates and the budget proposed within this report represents a balanced budget. To achieve this, the report details the efficiencies and savings that will be delivered in the financial year. There are some inherent risks to the full amount of savings being achieved and of the expenditure and income to be made; this will be monitored monthly, with plans being altered if needed in order that the net budgeted expenditure target can be delivered.

In determining the budgeted figures significant enquires have been made with Budget Officers, risk assessment and professional judgement have been applied where appropriate and challenge has be applied by those charged with governance, it is therefore considered that these figures represent a robust estimate of the Force and OPCC requirements for 2021-22.

Annex 1

2021-22 Commissioner's Total Budget (£m)

	Force Budget 2021-22 £m	OPCC Budget 2021-22 £m	Total Budget 2021-22 £m
Pay & allowances			
Officer	120.1	0.0	120.1
Staff	50.0	1.0	51.0
PCSO	5.5	0.0	5.5
	175.6	**1.0**	**176.6**
Overtime			
Officer	4.5	0.0	4.5
Staff	0.9	0.0	0.9
PCSO	0.1	0.0	0.1
	5.5	**0.0**	**5.5**
Other employee expenses	2.2	0.0	2.2
Medical retirements	4.9	0.0	4.9
	188.2	**1.0**	**189.2**
Other operating expenses			
Premises related	7.0	0.0	7.0
Transport	6.7	0.0	6.7
Communications & computing	8.8	0.0	8.8
Clothing & uniforms	0.7	0.0	0.7
Other supplies & services	6.0	0.3	6.3
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	4.2	6.3	10.5
Collaboration contributions	11.2	0.0	11.2
Capital financing	7.8	2.4	10.2
	56.1	**9.1**	**65.1**
Total expenditure	**244.3**	**10.0**	**254.3**
Income			
Seconded officers & staff income	(2.3)	0.0	(2.3)
Externally funded projects income	(3.5)	0.0	(3.5)
PFI grant	(1.9)	0.0	(1.9)
Ministry of Justice (MoJ)	0.0	(2.6)	(2.6)
Investment interest	(0.2)	0.0	(0.2)

	Force Budget 2021-22 £m	PCC Budget 2021-22 £m	Total Budget 2021-22 £m
Pensions grant income	(2.0)	0.0	(2.0)
Uplift performance grant income	(1.8)	0.0	(1.8)
Other income	(4.8)	(2.1)	(6.9)
	(16.5)	**(4.7)**	**(21.2)**
Net use of reserves	**0.0**	**0.0**	**0.0**
Total	**227.8**	**5.4**	**233.2**

Efficiencies as a result of specific plans totalling £2.5m have already been removed from the main budgets.

The above table does not account for the transport PFI exit impact. There will be changes to where costs are located but it is not anticipated that this will have any impact on the net expenditure total for 2021-22.

Annex 2

Workforce Movements 2020-21 Estimated Outturn v 2021-22 Budget

	2020-21 Estimated Outturn* FTE's	2021-22 Budgeted Total FTE's	Movements FTE's
Core Funded			
Police Officers			
Operational	1,563	1,663	100
Intelligence & Investigations	473	473	-
Operational Collaborations	94	94	-
Corporate Services	39	39	-
	2,169	**2,269**	**100**
Police Staff			
Staff	1,217	1,280	63
PCSO	151	151	-
	1,368	**1,431**	**63**
	3,537	**3,700**	**163**
Group Total			
Core	3,537	3,700	163
Seconded	34	34	-
Externally Funded	80	82	2
Force Total	**3,651**	**3,816**	**165**
OPCC	**16**	**17**	**1**
	3,667	**3,833**	**166**

***** The estimated outturn as at 31st 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
	2021-22				
Police Officers					
Opening balance*****	1,563	473	94	39	**2,169**
Leavers / restructure	(34)	-	-	-	**(34)**
Retirement	(23)	(15)	(13)	(3)	**(54)**
Recruitment	157	15	13	3	**188**
	1,663	**473**	**94**	**39**	**2,269**
Police Staff					
Opening balance*****	381	276	212	348	**1,217**
Leavers / restructure	-	-	(1)	-	**(1)**
Recruitment	9	-	-	55	**64**
	390	**276**	**211**	**403**	**1,280**
PCSOs					
Opening balance*****	148	3	-	-	**151**
Leavers / restructure	(24)	-	-	-	**(24)**
Recruitment	24	-	-	-	**24**
	148	**3**	**-**	**-**	**151**
Opening Balance*****	2,092	752	306	387	**3,537**
Movement	109	-	(1)	55	**163**
Closing Balance	**2,201**	**752**	**305**	**442**	**3,700**

***** Opening balance is the estimated outturn as at 31st March 2021.

Annex 3(ii)

Workforce Plan FTE’s

	2021-22					
	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*	**2,169**	26	2	**2,197**	-	**2,197**
Leavers / restructure	**(34)**	-	-	**(34)**	-	**(34)**
Retirement	**(54)**	-	-	**(54)**	-	**(54)**
Recruitment	**188**	-	-	**188**	-	**188**
	2,269	**26**	**2**	**2,297**	**-**	**2,297**
Police Staff						
Opening balance*	**1,217**	8	80	**1,305**	16	**1,321**
Leavers / restructure	**-**	-	-	**-**	-	**-**
Recruitment	**63**	-	-	**63**	1	**64**
	1,280	**8**	**80**	**1,368**	**17**	**1,385**
PCSOs						
Opening balance*	**151**	-	-	**151**	-	**151**
Leavers / restructure	**(24)**	-	-	**(24)**	-	**(24)**
Recruitment	**24**	-	-	**24**	-	**24**
	151	**-**	**-**	**151**	**-**	**151**
Opening Balance*	**3,537**	34	82	**3,653**	16	**3,669**
Movement	**163**	-	-	**163**	1	**164**
Closing Balance	**3,700**	**34**	**82**	**3,816**	**17**	**3,833**

***** Opening balance is the estimated outturn as at 31st March 2021.

Variation to the 2020-21 Budget

Police pay & allowances

The £7.0m increase from the 2020-21 budget is predominantly due to achieving the additional 107 officers for uplift by March 2020 as well as being a year ahead of the government uplift target. Also the increase will have the impact of pay scale increments however the pay award is 0% unless you are earning less than £24,000.

Police staff pay & allowances

The £3.7m increase from the 2020-21 budget is due to factoring an additional 63 staff members for uplift as well as pay scale increments. Again, the pay award is 0% unless you are earning less than £24,000. 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 2021-22 and this gap is similar to 2020-21 as we see the continued impacts of previous 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 have decreased by £0.2m for PCSOs. A total of 151 FTEs are budgeted for on average as we have an increase in officer numbers over the past couple of years so therefore have the ability to structure the policing model in a more effective way. Many PCSOs that have left have joined as officers which is pleasing to see.

Overtime

The £0.4m increase from the 2020-21 budget is due to officer and staff costs rising through increments and also other costs such as mutual aid to increase in 2021-22 which will be offset with increased income.

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 2021-22.

Premises related

There is an increase of £0.9m from the 2020-21 budget which reflects an assessment of planned and reactive maintenance budgets; an increase in the general costs of electricity and running costs for the additions of two major buildings to the estate which will come on line during 2021-22.

Transport

The £0.6m increase from the 2020-21 budget is due to a increases in the running costs of additional vehicles due to uplift as well as inflationary cost pressures.

Communications & Computing

Overall there is a £0.1m decrease year on year. However, there are some large changes within this as we now have £1.5m included which reflects the transfer of funding for consumable items that were previously classed as capital expenditure. There is also £1.3m that now is shown under partnership payments as it relates to the collaboration between forces and the Home Office in regards to national police IT contracts.

Clothing & uniform

There is a £0.1m increase from 2020-21 in relation to additional costs due to the uplift programme and the increase in officers.

Other supplies & services

The £0.5m increase is in relation to further investment being put in for the annual ADA process that was conducted in 2020-21 as well as a removal of an efficiency target which is now shown in the areas in which the savings will be made. Also there is an increase in replacement programme costs for CED (Taser) devices.

Partnership payments

The £3.0m increase from the 2020-21 budget is partly due to the realignment of budget from communications and computing as stated above for the Home Office IT charges along with an increase in partnership payments to other forces and expected regional ESN charges.

Collaboration contributions

The £0.3m decrease in budget from 2020-21 is primarily around a reduction in costs to MFSS as we start to move away and make provision to cater for this in house.

Capital financing

The £1.7m increase from the 2020-21 budget is due to an increase in MRP and interest paid charges.

Income

This has increased by £5.7m from the 2020-21 budget and the main reason for this is how the pensions grant income and uplift performance income is received and accounted for as it is not part of the core grant. There is also increased income in partnership payments, vehicle recovery and training.

Variation to the 2020-21 Budget (£m)

	Total Budget 2020-21 £m	Total Budget 2021-22 £m	Variance £m
Pay & allowances			
Officer	113.1	120.1	7.0
Staff	47.3	51.0	3.7
PCSO	5.7	5.5	(0.2)
	166.1	**176.6**	**10.5**
Overtime			
Officer	4.2	4.5	0.3
Staff	0.8	0.9	0.1
PCSO	0.1	0.1	0.0
	5.1	**5.5**	**0.4**
Other employee expenses	2.2	2.2	0.0
Medical retirements	4.9	4.9	0.0
	178.3	**189.2**	**10.9**
Other operating expenses			
Premises related	6.1	7.0	0.9
Transport	6.1	6.7	0.6
Communications & computing	8.9	8.8	(0.1)
Clothing & uniforms	0.6	0.7	0.1
Other supplies & services	5.8	6.3	0.5
Custody costs & police doctor	1.6	1.6	0.0
Forensic & investigative costs	2.1	2.1	0.0
Partnership payments & grants to external organisations	7.5	10.5	3.0
Collaboration contributions	11.5	11.2	(0.3)
Capital financing	8.5	10.2	1.7
	58.7	**65.1**	**6.4**
Total expenditure	**237.0**	**254.3**	**17.3**
Income			
Income	(15.5)	(21.2)	(5.7)
	(15.5)	**(21.2)**	**(5.7)**
Net use of reserves	**0.0**	**0.0**	**0.0**
Total	**221.6**	**233.2**	**11.6**

Annex 5

2021-22 Commissioner's Total Budget – Thematic View (£m)

	2021-22								
	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	77.6	28.9	7.1	4.5	1.9	0.2	**120.1**	-	**120.1**
Staff	15.3	11.8	7.3	12.7	0.4	2.4	**50.0**	1.0	**51.0**
PCSO	5.4	0.1	-	-	-	-	**5.5**	-	**5.5**
	98.3	**40.8**	**14.4**	**17.2**	**2.3**	**2.6**	**175.6**	**1.0**	**176.6**
Overtime									
Officer	2.4	1.4	0.7	-	-	-	**4.5**	-	**4.5**
Staff	0.3	0.3	0.2	0.1	-	-	**0.9**	-	**0.9**
PCSO	0.1	-	-	-	-	-	**0.1**	-	**0.1**
	2.8	**1.7**	**0.9**	**0.1**	**-**	**-**	**5.5**	**-**	**5.5**
Other employee expenses	-	-	-	2.2	-	-	**2.2**	-	**2.2**
Medical retirements	-	-	-	4.9	-	-	**4.9**	-	**4.9**
	101.1	**42.5**	**15.3**	**24.4**	**2.3**	**2.6**	**188.2**	**1.0**	**189.2**
Other operating expenses									
Premises related	-	-	-	6.8	-	0.1	**7.0**	-	**7.0**
Transport	0.2	0.1	0.1	6.1	-	0.2	**6.7**	-	**6.7**
Communications & computing	-	-	-	8.6	-	0.2	**8.8**	-	**8.8**
Clothing & uniforms	-	-	-	0.7	-	-	**0.7**	-	**0.7**
Other supplies & services	0.4	1.1	0.5	3.7	-	0.4	**6.0**	0.3	**6.3**
Custody costs & police doctor	-	0.3	1.2	0.1	-	-	**1.6**	-	**1.6**
Forensic & investigative costs	0.1	0.9	1.1	-	-	-	**2.1**	-	**2.1**
Partnership payments	0.2	0.2	0.1	3.1	-	0.6	**4.2**	6.3	**10.5**
Collaboration contributions	-	0.7	10.5	-	-	-	**11.2**	-	**11.2**

	2021-22								
	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	-	-	-	8.4	-	(0.6)	**7.8**	2.4	**10.2**
	0.9	**3.3**	**13.5**	**37.5**	**-**	**0.9**	**56.1**	**9.0**	**65.1**
Total expenditure	**102.0**	**45.8**	**28.8**	**61.9**	**2.3**	**3.5**	**244.3**	**10.0**	**254.3**
Income	**(0.9)**	**(1.4)**	**(0.3)**	**(8.3)**	**(2.3)**	**(3.5)**	**(16.5)**	**(4.7)**	**(21.2)**
Net use of reserves	-	-	-	-	-	-	**-**	**-**	**-**
Total	**101.1**	**44.4**	**28.5**	**53.6**	**0.0**	**0.0**	**227.8**	**5.4**	**233.2**

Nottinghamshire
POLICE & CRIME COMMISSIONER

Capital Programme 2021-2026

January 2021

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. In keeping within the indicator limits some major capital projects are being financed from revenue/reserves. Where capital receipts are available these are utilised to finance short life assets. Both of these actions reduce the burden on the revenue budgets in future years.

2. Capital Programme 2021-22

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 £9,716k slippage from 2020-21 (P8) 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 2021-22 is provided in **Appendix A.**

The proposed programme is summarised in the table below:

Capital category	2021-22 £k	2022-23 £	2023-24 £	2024-25 £	2025-26 £
Assets	12,917	4,213	2,174	2,240	2,308
IT	2,515	1,775	2,348	774	144
Fleet	2,361	2,422	2,308	2,430	2,498
Total	**17,793**	**8,410**	**6,830**	**5,444**	**4,950**

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 was planned to be concluded during 2021-22, however due to Covid it is likely there will be some slippage. 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 budget has now been included in the medium term financial plan in revenue in line with Treasury Management Strategy.

Fleet shows the on-going replacement of vehicles now that the force has ended the PFI contract and has full ownership of all the forces fleet of vehicles.

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.

3. Medium Term Capital Programme

It is normal practice to provide an indication of the capital programme for 2021-22 to 2025-26. 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 elsewhere within this agenda.

5. Revenue Implications

Capital Expenditure does have revenue implications; generally these have the greatest impact in the year after the capital expenditure has been incurred/project completed. These costs reflect a depreciation cost and a cost of borrowing. The cost of borrowing is made up of a mixture of interest only and EIP (equal instalments of principal and interest) loans. Where interest only loans have been taken the capital sum will need to be repaid. Depreciation is allocated over the life of the asset.

The Revenue budget for 2021-22 includes the estimated Minimum Revenue Provisions (MRP) based on expenditure prior to 1st April 2021, including an estimated cost of borrowing for existing borrowing and new borrowing planned in 2021-22.

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

Capital Programme 2021-22 to 2025-26 **Appendix A**

PRIORITY SCHEMES RECOMMENDED FOR INCLUSION IN THE MEDIUM TERM PLAN

Figures shown £'000			Year				
Suggested Priority	**Project Name**	**Department**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**
1	**Custody Improvements**	Assets	800	360	113	116	119
	ESN	IS	0	824	2,118		
	Nottm. Custody Suite	Assets	3,000	253			
	Joint FHQ New Build	Assets	5,017	250			
	New Systems	IS	1,360	400			
TOTAL PRIORITY 1 PROJECTS			**10,177**	**2,087**	**2,231**	**116**	**119**
2	**ANPR Replacements**	IS	99	102	136	140	144
	Vehicle & Equipment Replacement Programme	Fleet	361	372	383	395	407
	SARC New Build	Assets	800				
	Operation Uplift	Assets	500	250			
		IS	500	250			
	Building Condition & Capital Mtn works	Assets	2,200	2,000	2,061	2,124	2,189
	Operation Uplift Fleet	Fleet	400	250	125	235	291
	Tech. Refresh and Upgrades	IS	556	199	94	634	0
	Newark- Castle House Extension	Assets	600	1,100			
	Replacement Vehicle Management process	Fleet	1,600	1,800	1,800	1,800	1,800
TOTAL PRIORITY 2 PROJECTS			**7,616**	**6,323**	**4,599**	**5,328**	**4,831**
TOTAL PRIORITY 1&2 PROJECTS			**17,793**	**9,216**	**7,651**	**6,282**	**5,805**

Appendix B

BREAKDOWN OF BUILDING CONDITION & CAPITAL MTN WORKS

Figures shown £'000	Year				
	2021-22	2022-23	2023-24	2024-25	2025-26
Sub Project Name					
FHQ Pedestrian Gate Replacement	10				
Fire Door Replacement/Repairs across the Force	30				
Mansfield Electrical Lighting	550				
Mansfield Window Ironmongery Replacement	15				
Ollerton Chimney Removal	35				
Oxclose Lane Fire Alarm L1 Replacement	35				
Oxclose Lane Prelims	147				
Oxclose Lane PV Removal and Reassemble	20				
Oxclose Lane Roof Replacement	90				
Oxclose Lane Window Overhaul	573				
Radford Rd Building Fabric	220				
Radford Road BWIC Windows	50				
Radford Road Prelims	140				
Radford Road Roof Replacement	90				
Radford Road Window Overhaul	195				
TOTAL BUILDING CONDITION & CAPITAL MTN WORKS	**2,200**	**2,000**	**2,061**	**2,124**	**2,189**

Nottinghamshire
POLICE & CRIME COMMISSIONER

Financial Strategy

2021-2026

January 2021

1. Executive Summary

1.1 This report brings together the Commissioner’s business and financial planning. It looks forward over the next 5 years and sets out how it will meet the Commissioners Police and Crime objectives. This is a refreshed and revised report from the one approved in February 2020 and is the final report for February 2021 police & crime Panel meeting.

1.2 The draft Police & Crime Delivery Plan has been refreshed and is included in the reports to the Police & Crime Panel. The key objectives within the plan are:

- Protecting People from Harm
- Helping and Supporting Victims
- Tackling Crime and Anti-Social Behaviour (ASB)
- Transforming Services and providing quality Policing

This financial strategy puts in place the financial commitments in achieving these objectives.

1.3 Linked with this and presented at the same time is the precept report, the revenue budget for 2021-22, the capital strategy, capital five year programme, treasury management strategy and reserves strategy. This Strategy brings together all of these reports and strategies and they should be read in conjunction with one another. This strategy also includes indicative budgets for the next 4 years up to 2025-26 based on information known at the current time.

1.4 For 2021-22 the proposed level of net revenue expenditure after income and specific grants is £233.2m, which is an increase of 6.2% over the current year’s financing available (revised) of £219.6m. Setting a balanced budget requires a council tax increase of £14.94 (band D equivalent). This level of council tax increase is possible due to the additional freedoms provided within the Autumn 2020 Spending Review, which allow a council tax increase of up to £15 to cover the increase in cost pressures such as pay awards and inflation not included in core grant. This freedom cannot be assumed in future years particularly given the huge impact of COVID 19 on government borrowing and receipts.

1.5 This level of spend and the resulting amount of council tax precept does not however provide any additional contribution to reserves in 2021-22; but there is an increased contribution to capital expenditure from revenue. The level of General reserves remains midway between minimum and maximum recommended levels. The ambition would be raise this to the maximum level of 5% of Net Revenue Expenditure. It is planned to address the reserve issue in the following 4 years by ensuring that sufficient funds are allocated to increase reserves to a level commensurate with the Force's spend and risk analysis. Further work will be undertaken in 2021 and 2022 to better understand key risks and pinch points together with a more planned approach to medium term financial planning, incorporating a whole organisation approach. This will ensure all aspects are considered, eg workforce requirements, estate, vehicle and ICT plans). For estates the plan needs to cover a period of 15-25 years. This will enable better planning and the ability to maximise resources and demonstrate value for money for the taxpayer.

1.6 Revenue funds are also required to fund capital spending due to the lack of headroom within the Force's capital financing requirement. This means further borrowing is not possible to fund capital spending. Currently direct capital financing from revenue is estimated to be in the region of £4.5m and for 2021-22 it is estimated to be c £4.0m. This point, together with the one above re reserves, means that during the period of this MTFS the Force needs to precept on council taxpayers not just for its operational revenue requirements in any one year but also to fund capital spending and to ensure reserves are kept at an adequate level.

1.7 Notts Police is heavily dependent on government grant funding with almost 70% of its funding coming from grant. In line with all previous assumptions, core Police Grant remains flat but it has now been increased by including the core element of funding relating to Uplift. In 2021-22 this is an additional £9.5m, which takes the total core grant including Uplift funding to £154.7m compared with £146.1m for 2020-21. Despite Covid and the huge impact on the Government's finances the grant settlement was better than expected. However, the issue going forward is that this is unlikely to be able to be maintained and grant is assumed to be static post year 4 of Uplift. Therefore in real terms this represents a cut in spending as in actuality there will be incremental progression as well as inflation to fund.

1.8 The budget includes the latest indicative assumptions from the Governments Spending Review. It does not make any assumption relating to a Funding Formula Review as this has been delayed year on year. As Nottinghamshire Police are one of the losers under the current funding formula it had been hoped that a new formula would provide a greater level of ongoing grant support.

1.9 It should also be noted that the promised 3 year Comprehensive Spending Review (CSR) has in light of the pandemic become a 1 year review and in what the Treasury are deeming to be "very difficult times". This clearly makes longer term planning difficult but it is still necessary to try and ensure that the Force is in a strong position going forward. To help achieve this it is envisaged that the budget process for 22-23 will start earlier in the year and will provide more sensitivity analysis about assumptions and try and model different scenarios to ensure that the Force is properly equipped with the information so that it can react in a timely manner once government funding is known. It is clear that for the foreseeable future the majority of any available increases in funding will go to the NHS, Care Homes and some to Teaching. There will be a need to seriously consider ways of transforming the service to ensure that key objectives can still be met even if there are significant reductions in funding.

1.10 Looking forward, the 5-year medium term financial strategy for 2021 to 2026 currently forecasts a total budget gap of £8.1m.

1.11 Given all of the above, it is imperative that the Force's financial governance is strong and given appropriate priority as it can be a significant driver of change and transformation. Last summer the Force and PCC commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) to carry out a review of the Force's Financial Management Capability in order to look for ways to improve. The report has been considered at a high level by the PCC and CC, the CC CFO and the PCC CFO. However, in light of other pressing business, including preparation for the new Financial Management System, major contract works as well as the restructuring of the Finance team and the impact of Covid, it is planned that a formal report and action plan should go to Executive Board in Spring 2021. This will set out the key recommendations and the actions already taken and proposed. Work has been ongoing on a number of fronts in the past 2-3 years, including a restructure of the Finance team in the last year and the appointment of new senior finance staff. In addition, budget monitoring has been improved.

1.12 In the current financial year, work has focused on strengthening the team and improving the capability and capacity of the Finance function, to move the team to operating more as business partners rather than service accountants. This should ensure that the finance team more fully understand the needs of the business and can help budget managers to maximise their resources and consider the best ways to transform their services and provide best value for money. The position of public sector funding post Covid will be extremely pressured and as stated above it is anticipated that grant levels are unlikely to remain at current levels. A reduction in grant given what has been said above about funding, reserves and capital will require the Force to look afresh at the use of its assets as well as considering how it can transform its services to deliver more for less.

2. <u>Financial Context</u>

2.1 National Background

2.1.1 The last 10 years have resulted in many changes to the environment that Policing operates in. The economic downturn which started in 2007-08 has been a key driver for this and has presented the Police & Crime Commissioner with significant challenges for policing in Nottinghamshire, including:

- Reductions and flat cash settlements in grant funding
- Restrictions on Council Tax: relaxed in recent years
- Demand led pressures
- Other external factors
- The UK’s withdrawal from the European Union
- The impact of the COVID 19 pandemic

2.1.2 These economic challenges have contributed to uncertainty and this has been reflected in the way in which Commissioners have developed medium term strategies for the delivery of services.

2.2 Public Finances

2.2.1 When setting the budget for 2020-21 the Institute for Fiscal Studies (IFS) was reporting that public sector net borrowing or deficit, which is defined as when total government expenditure exceeds receipts over the period 1997-98 to 2018-19; peaked during the height of the economic downturn, but had improved in recent years. However, the Pandemic which followed in March has had a major impact on the then promising signs for public finances.

2.2.2 The impact of the pandemic has seen government borrowing increase to £1.98 trillion (June 2020) this represents 99.6% of gross domestic product (GDP) and is the highest debt ratio since 1961.

2.2.3 Since 2007 when the first cut to police funding (grant) was made there have been either further cuts or flat cash settlements. This has resulted in cuts being made throughout the organisation in order to balance the budget.

2.2.4 This was compounded further by the limitation on council tax (precept) increases. This has been as low as zero percent and the highest until recent years has been 2%. For 2018-19 the first relaxation in the limitation on precept increases was introduced and policing was allowed to increase precept by up to £12, followed by £24 and £10 on a Band D property in the following two years. And now £15 has been proposed for 2021-22.

2.2.5 In this years negotiations between the Home Office and the Treasury, the Home Office have made strong representation to the Treasury, that failure to fund not just for “Uplift”, but the additional pressures (specifically relating to pay, inflation and national IT projects), would result in the number of police officers not increasing in line with the Prime Ministers promise.

2.2.6 At a local level impact of the pandemic has the Local Authorities reporting a significant impact on Council Tax collection rates and forward projections for the council tax base. This is compounded by an increase in the number unemployed (including those receiving benefits) and a reduction in the planned growth of housing. This is estimated to affect the tax base for 2021-22 with the latest range being from +1% to -5% on the previous year.

2.2.7 Austerity has had a significant impact on the number of police officers and therefore the Government has provided “Uplift” funding to increase the total number of officers by 20,000 over the 3 year period 2020-21 to 2022-23. Further cuts in the totality of funding for police would put this ambition at risk.

2.2.8 In providing the freedom to raise council tax precept by £15 in 2021-22 the Minister has stated he would expect any plans for reverse civilianisation to be stopped.

2.2.9 The provisional settlement announced in December 2020 has provided sufficient funding through the council tax freedom and mainstreaming of Uplift to be able to set a balanced budget for 2021-22. This includes the further support to both the collection fund deficit and the reduction in the council tax base, which together would have had a significant impact on the total resources available.

2.3 Spending Review

2.3.1 The Home Office have concluded their work on the Spending Review 2020. This was done over a very short period of time and within a remit from the Treasury that things will be tight.

2.3.2 Where we have had an indication of how this will impact police funding it has been applied to this strategy.

2.3.3 Whilst police funding is being considered by the government it is not the key focus.

2.3.4 A long awaited Funding Formula review is still required. The Police Grant is allocated on a formula which originates and includes data from 2005. And the formula itself was never fully implemented due to the floors mechanism operated.

2.4 Other factors

2.4.1 At a national level factors which will affect local finances include the impact from leaving the European Union, Pension Revaluations, the impact of the pandemic and nationally run projects such as ICT projects. These are all outside of local control, but all will continue to impact significantly on resources made available.

3. <u>External Influences & local impact?</u>

3.1 Background and Budget Setting

3.1.1 Each year the Force commences it budget process in the Autumn. With a draft budget required by 31st October so that only small adjustments are needed as the information from the Autumn Statement and spending review become known. With final adjustments in December once final grant settlement has been announced. From the budget process for 2022-23 it is proposed to start the process earlier.

3.1.2 Both the PCC and PCC CFO attend meetings at a national level to ascertain any possible information from the Home Office that can be obtained and influence the parameters for setting the local budget. The PCC also meets with the Minister and can provide influence to the Ministers thinking. Such as precept relaxation – to what level?

3.1.3 For 2020-21 we had an early indication that the Minister was receptive to relaxing the precept limits for a third consecutive year, but that this was not going to be as high as the £24 permitted in 2019-20. This was confirmed when the results of the Spending Review were announced.

3.1.4 Evidence was supplied to demonstrate that in order to stand still and meet inflation and pay award pressures Nottinghamshire required precept freedoms of at least £5. This was on the understanding that there would be no increase to the core police grant and only the additional grant for "Uplift" would see core funding increase.

3.1.5 When settlement was announced in December 2020 we were provided with precept freedom of £15, flat core grant, Uplift Grant and additional Pension grant.

3.1.6 Therefore the precept and budget reports are produced on this information with future assumptions based on no increase to core grant (except for Uplift), and a return to the 2% maximum increase for precept (plus 0.5-1.0% increase to the Taxbase for growth). This identified gaps between estimated expenditure and possible funding available. This is a worse case forecast for the force to work towards in delivering further efficiencies and reflects the lack of a credible plan for delivering future efficiencies.

3.1.7 The first outline of a budget and funding available was done as part of the reports referred to in 1.2 and on those assumptions. During the year as information becomes available modelling is carried out to see what impact that this and any other scenarios may have.

3.1.8 This strategy is overarching of the reports in 1.2 and identifies what the precept or core grant would need to increase by in order to meet the estimated net expenditure requirement for 2021-22 and beyond.

3.1.9 As part of this process all variables are reviewed such as pay award assumptions, the costs of incremental progression, the impact of the living wage, inflation, demand led increases such as the increase in IT (purchase and revenue running costs).

3.1.10 This revised strategy updates all known variables based upon the latest information.

3.1.11 The Force runs a series of internal events known as the ADA process to identify growth required. This provides very limited contribution towards efficiencies.

3.1.12 **Appendix A** provides an updated high level projection of net revenue expenditure and potential funding. This will continue to be updated as we go through the Spending Review and Budget setting process.

3.1.13 **Appendix B** details the variables that can be applied to the assumptions made in Appendix A.

3.2 Current Knowns and Unknowns

3.2.1 Impact of Brexit

December 2020 should still see the final withdrawal from the European Union. Fortunately, the work to support this produced an agreed exit deal. The ongoing future impact remains an unknown and therefore its impact on public sector funding remains unknown.

3.2.2 Impact of the Pandemic

The impact of the pandemic at a national level on public sector funding is unknown. However, it is clear that the National Health Service will remain the key focus for any funding available.

3.2.3 This is also the second quarter of negative growth in the economy and officially now a recession. If this continues, this will also impact on funding for the public sector.

3.2.4 Early indications are that there could be additional capital grant made available for 2021-22. If this was the case it would significantly assist in reducing the need for revenue contributions towards capital expenditure. This is the only known positive factor at this stage and the total amount that would come to individual forces remains “unknown”.

3.2.5 There is concern on the impact of the pandemic on council tax. Locally, billing authorities are reporting a significant reduction on the amount of council tax collected and this is further compounded by the fact that the courts are not envisaged to be hearing debt collection requests until early in 2021.

The Government has announced that the deficit on collection can be recovered over the next three years, rather than the one year that is usual practice. And there has been an indication that there might be Government assistance in relation to this.

Subsequent announcements as part of the Spending review have confirmed the provision of a Council Tax Support Grant to alleviate the problems of a reduction in the forecasted Taxbase. And the provision of a local Council Tax Income Guarantee Grant to contribute 75% towards the deficit on the Collection Fund from 2020-21.

3.2.6 Added to this is the increase in the number now unemployed and the number receiving benefits; also, the reduction in the amount of new properties likely to be built in 2020-21 will both affect the estimated future precept amounts. The property building is also affected by new working arrangements where social distancing has to be maintained.

3.2.7 Whilst the actual impact on the tax base is currently unknown the impact of a 1% reduction is estimated at a loss in funding of £750,000.

Pension Revaluations

3.2.8 Over the medium term there is a planned revaluation of the Police Pension Fund and the Local Government Pension Fund. The last revaluations saw the employers' contribution for Police pensions rise by 6.8% to 31.0% and the employers contribution for Police staff rise by 3.1% to 16.5%.

3.2.9 Current estimates are that the employers rate for the Police Pensions will rise again, to as much as 40% and the staff LGPS pension employers rate rise from 16.5% to a potential worse case of 25%. So far a 5% increase has been estimated to come into effect in 2023-24.

3.2.10 The full impact of the McCloud case on public sector pensions is still being felt. Currently the Treasury has provided grant to mitigate most of this and the Home Office has also provided a smaller grant for the same purpose.

Uplift Grant –

3.2.11 The Home Office is providing grant funding for all of the costs associated with the recruitment of additional officers (pay, uniform, premises, vehicles, support services). This core funding will be rolled into core police grant moving forward.

3.2.12 In addition to the core Uplift Grant the Home Office is also providing a performance related specific grant. This is paid from the quarter after achieving the recruitment target for the year. The Chief Constable has been very proactive in ensuring that Nottinghamshire achieved its target ahead of the new year for 2020-21 and plans the same proactive recruitment for the 2021-22 recruits.

Efficiencies

3.2.13 In recent workshops for the Spending Review the need to identify savings has become apparent. We countered the proposal from the Home Office requiring £1bn in savings with the argument that Police Officers should be excluded from the calculation as the drive through Uplift funding was to increase the number of officers. A similar argument for staff in support roles was also made.

3.2.14 We suggested that 5% of non-pay related expenditure would be challenging, but more realistic. This equates to £100m for the next 3 years. How this is finally profiled is still to be resolved. We await the Home Office and treasury view of this suggestion.

4. Risks and Robustness

4.1 In general terms the biggest risk is having insufficient funding to meet expenditure requirements. This can lead to perverse/inefficient outcomes, such as Police Officers carrying out staff roles

4.2 Historically, Nottinghamshire has been underfunded from Police Grant. Since the current formula came into place in 2005-06 Nottinghamshire has had significant amounts of funding withheld in a floor mechanism that protected over funded forces from experiencing significant cuts in their funding. The consequence of which is that Nottinghamshire has always had to make do with less, does not have cash rich reserves and was already financially weak when austerity hit.

4.3 Nottinghamshire is approximately 70% funded by police grant and 30% by precept. Which during austerity meant we were hit the hardest financially compared to others who are 30-50% grant funded. These forces were still able to receive increased funding from precepts whilst grant was either cut or static. This Gearing affect continues to be a risk that we have to manage and work within.

4.4 Funding Formula Review. This has been on the agenda since before PCCs were created. Tweaks to the formula, such as the bars per hectare adjustment just resulted in increasing the amount of grant funding be withheld. Within the formula there is some very old data which was arguably not representative. This includes Activity Based Costing, which for a short period of time forces collected ABC data of activity for two weeks during the year and this was incorporated into the formula for allocating grant. This ABC data has not been updated since 2006-07.

4.5 Under this funding formula Nottinghamshire has had at least £10m per annum withheld in grant funding and at one point as high as £18m.

4.6 The continuous deferment of a funding formula review means that Nottinghamshire continues to be underfunded against the Home Offices own criteria for assessing need. This effectively penalises Nottinghamshire.

Reserves and Balances

4.7 The consequence of the underfunding of police grant and the gearing effect of grant to precept has meant that Nottinghamshire has never been "cash rich". Its level of reserves has always been lower quartile (even amongst the lowest 3 forces for some time).

Despite this when opportunities have arisen we have acted proactively. For example efficiencies delivered ahead of schedule or greater than expected were transferred to reserves to fund transformation, redundancies and revenue overspends. This is an effective use of reserves for one-off funding to reduce the total revenue base budget going forward.

4.8 Nottinghamshire holds a general reserve of £7.075m. The £0.075m relates to a requirement under regional collaboration. The £7.0m has increased from £3m up to 2010 and currently represents 3.2% of our net revenue expenditure (NRE).

The policy is that this reserve should not ever fall below 2% of NRE as the Home Office require a 1% contribution of NRE to any request for specific grant. The Home Office have set a maximum that it expects forces to hold of 5%. To achieve this maximum limit would require and additional contribution of £2.8m in the current year. This will be reviewed in 2021-22.

4.9 Nottinghamshire holds earmarked reserves which have been increasing deliberately over recent years (and therefore the opposite trend to what has been seen nationally). This is because we need to fund some major capital expenditure projects and are very close to our capital financing limit for borrowing. To ensure we do not exceed this we have been setting aside reserves to finance one of our new buildings. This will also have a positive effect on the revenue budget in future years, by reducing the MRP which would have fallen due.

4.10 The government has made it very clear that it does not expect any force or local authority to hold significant levels of reserves. We are demonstrating we only hold increased levels of reserves for very short periods of time for major capital projects.

4.11 Capital receipts are utilised to fund short life assets in the capital programme as this is more beneficial to the future revenue budgets.

4.12 Capital grant has been reducing over recent years and is almost non-existent. We are hearing that more might be made available in the next settlement and this would reduce the need for revenue contribution to capital.

5. **Strategy Assumptions**

The strategy is built based on a number of assumptions. From the initial build the financial gap is identified – February 2020 budget reports. This is then expressed as efficiencies required, increase in grant funding required or increase in precept required.

1.13 Until the government confirms an increase either in grant or precept freedoms it has to be assumed that the gap will be met from efficiencies within the Force as reserves are already low or earmarked.

1.14 Core Funding

1.14.1 Core grant. It is assumed that there is no increase to core grant funding at this stage. Discussions are ongoing as part of the Spending Review, but the Treasury has already indicated that it will be a very tight settlement this year. We will also show what grant needs to increase by to cover the funding gap.

1.14.2 Precept. It has been assumed for the base position that the former 2% precept increase limit will be in place. But we will show what we would need precept to increase by to cover our financing gap.

1.14.3 In addition to this we identify what a 1% increase on the precept generates and what a 1% reduction of the tax base causes.

1.15 Net Revenue Expenditure

1.15.1 Pay. It has been assumed that police officer pay will increase by 2.5% year on year. The same has been assumed for police staff pay. We are now hearing that it might just be nursing staff that receive any pay award in 2020-21. However, the full year impact of this years 2.5% pay award will need to be met from somewhere.

1.15.2 Pensions. It has been assumed that all new officers and staff will auto enrol to the respective pension schemes. The next triennial valuation for the police pension is due in 2022-23 and a similar date for the police staff pension scheme. It is likely that the employers contribution will change and probably upwards. This has not been factored into the assumptions at this stage. However, a 1% increase has been calculated and shown.

1.15.3 Non-Pay. Inflation is currently running at 0.5%. However, existing commitments (contracts) have higher increases built in. And the risks relating to overspends on national projects show that this is not the additional rate being incurred.

However, we have shown the estimated 5% efficiency that we will be required to deliver.

1.15.4 Uplift Grant. Whilst this is a significant grant in value and which drives specific activity it is not 100% core grant. However, that known to be becoming core grant has been shown. It is assumed that the original notification of how funding would be awarded will be honoured. This includes the assumption in relation to specific grant based upon performance being achieved and maintained.

APPENDIX A(i)

Net Revenue Expenditure (NRE)

Net Revenue Estimate as at January 2021						
	2020-21 £m	**2021-22 £m**	**2022-23 £m**	**2023-24 £m**	**2024-25 £**	**2025-26 £m**
Pay	**174.8**	**184.2**	**192.6**	**198.5**	**202.3**	**205.4**
Pay award	2.5%	0%	0%	1%	1%	1%
Non pay	**75.8**	**69.7**	**70.3**	**69.7**	**70.6**	**71.8**
Non Pay inflation	1% inflation 10% HO IT inflation 3-5% utilities & fuel	1% inflation 10% HO IT inflation 3-5% utilities & fuel	1% inflation 10% HO IT inflation 3-5% utilities & fuel	1% inflation 10% HO IT inflation 3-5% utilities & fuel	1% inflation 10% HO IT inflation 3-5% utilities & fuel	1% inflation 10% HO IT inflation 3-5% utilities & fuel
Income	**(24.8)**	**(15.4)**	**(15.7)**	**(16.1)**	**(16.4)**	**(16.9)**
Specific Grants (incl Uplift)	**(5.1)**	**(5.3)**	**(3.8)**	**(2.5)**	**(2.0)**	**(2.0)**
TOTAL NRE	**220.7**	**233.2**	**243.4**	**249.6**	**254.5**	**258.3**

APPENDIX A(ii)

Core Funding

Core Funding estimate as at February 2020						
	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £	2025-26 £m
Precept	73.5	75.8	78.2	80.1	83.2	
Tax base increase %	1.11%	1.14%	1.14%	1.14%	1.14%	
Collection fund surplus	0.5					
Core Grant	136.4	136.4	136.4	136.4	136.4	
Core for Uplift						
Reserves	(0.5)	(2.0)				
Core Funding available	209.9	210.4	214.8	216.7	219.8	

Core Funding estimate as at January 2021						
	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £	2025-26 £m
Precept 2% increase in future years	73.5	78.5	80.4	82.9	85.4	88.0
Tax base increase %	1.11%	0.25%	0.5%	1.0%	1.0%	1.0%
Collection Fund surplus/(Deficit)	0.5	0.1	(0.3)	(0.3)		
Core Grant	146.1	154.7	154.7	163.3	166.1	166.1
Core for Uplift			8.6	2.8	0	0
Reserves	(0.5)	(0.1)				
Core Funding available	219.6	233.2	243.4	248.7	251.5	254.1

APPENDIX B

Variables to Appendix A

Net Revenue Expenditure

The revised table above as at February 2021 includes makes the following assumptions:

- Pay
  - Full year effect of 2019-20 pay award 2.5% = £4.0 m
  - Half year effect of 2020-21 pay award 2.5% = £2.0 m
  - Pay awards in subsequent years 0% for 2021-22 & 2022-23, 1% 2023-24 to 2025-26
  - Increments due in 2020-21 = £2.5m
  - Employers rate increase to pensions 2023-24 5% = £4.5m
- Non Pay
  - Inflation 1% = £0.3m
  - Home Office IT cost inflation 10% = £0.2m
  - Fuel/Utilities inflation 3-5% = £0.2m
  - Other Commitments = £0.5-£1m
- Income
  - Inflation 1% = £0.2m
  - Specific Grant as agreed nationally

Variables:

Every 1% increase to pay = £1.5m
Every 1% increase to the employers rate to pensions = £0.9m
Every 1% increase to inflation on non-pay = £0.3m
Every 1% increase in income inflation = £0.2m
Every 1% reduction to specific grant income (specifically Uplift and Pensions) = £0.1m

Core Funding

The revised table as at November 2020 makes the following assumptions:

- Core Grant – flat cash
- Precept 2% limit
- Tax Base – increases slowly from 0.5% in 2022-23 to 1%
- Deficit on the collection fund estimated at £3million over 3 years – 75% specific grant funded

Variables

Every 1% increase on Core Grant = £1.3m assuming MHCLG element included. £0.7m if HO element only

Every 1% increase on precept = £0.730m

Every 1% reduction in tax base = £0.750m

Government fund collection fund deficit = £3m

Reserves repaid in 2020-21 from previous overspend. General Reserve level to be reviewed.

The Nottinghamshire Office of the Police & Crime Commissioner

Capital Strategy

2021-22

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 (Commissioner) 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 Commissioner 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 Commissioner 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 Commissioner's Police and Crime Plan and commitment to support national drivers, such as the National Policing Vision.

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 de-minimis 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 (e.g. 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 Commissioner 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 Commissioner in the following February for approval, reflecting the known funding position and any further developmental work on the plan.

The formal Commissioner 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 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. This plan itself needs to have a long term view (30+ years) of each site that the Force occupies and informed by the building condition surveys undertaken.

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 Commissioner 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 Commissioner 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 Commissioner 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 Commissioner 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 £0.2m 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 (e.g. 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 and will utilise the Treasury management Advisors in this, before a recommendation is made to the Commissioner.

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 Commissioner 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 programme. 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 Commissioner, during the development of the capital programme.

Having approved the capital plan and the capital programme in February each year the Commissioner 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 Commissioner 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 programme, the department in consultation with the Head of Finance will prepare a business case for submission to the Futures Board and then to the Commissioner 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 Commissioner.

Monitoring reports are presented to the Commissioner 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

Draft

Treasury Management Strategy

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2021-22

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:

- the capital plans (see also the strategy report), prudential indicators and borrowing plans
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
- the treasury management strategy, (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed)

A mid-year treasury management report – This is primarily a progress report and will update the Commissioner on the capital position, amending 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 is a backward looking review document and 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 2021-22

The strategy covers two main areas:

Capital issues

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

Treasury management issues

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

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.

1.4 Treasury management consultants

NOPCC uses Link Group, Treasury Solutions 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. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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. The training needs of treasury management officers are periodically reviewed.

2. THE CAPITAL PRUDENTIAL INDICATORS 2021-22 to 2025-26

The Commissioner's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the 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.

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	2019-20 Actual £m	2020-21 Forecast £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
Assets	4.658	19.624	21.595	4.213	2.174	2.240	2.308
IS	2.917	4.253	3.303	1.775	2.348	0.774	0.144
Fleet	0.215	0.933	2.361	2.422	2.308	2.430	2.498
Other	0.248	0.187					
Capital Programme	**8.038**	**24.997**	**27.259**	**8.410**	**6.830**	**5.444**	**4.950**
Financed by:							
Capital Receipts	(0.364)	(2.173)	(2.464)	(1.197)	(2.656)	(1.204)	(0.642)
Capital Grants	(0.787)	(0.200)	(0.200)	0.000	0.000	0.000	0.000
Capital Contributions	(0.042)	(0.975)	(2.490)	(0.047)	0.000	0.000	0.000
Direct Revenue Financing	0.000	(4.500)	(4.000)	0.000	0.000	0.000	0.000
Capital Reserve	(1.300)	(0.171)	(5.935)	(0.503)	0.000	0.000	0.000
Net Financing need	**5.545**	**16.978**	**12.170**	**6.663**	**4.174**	**4.240**	**4.308**

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 asset's 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 by the provider 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)	2019-20 Actual £m	2020-21 Forecast £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
Total CFR	63.606	77.196	85.204	87.043	86.007	85.273	84.365
Movement in CFR	2.382	13.590	8.008	1.840	(1.036)	(0.735)	(0.907)

Movement in CFR represented by	2019-20 Actual £m	2020-21 Forecast £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
Net financing need for the year (above)	5.545	16.978	12.170	6.663	4.174	4.240	4.308
Less MRP/VRP and other financing movements	0.000	(3.388)	(4.162)	(4.823)	(5.210)	(4.975)	(5.215)
Movement in CFR	5.545	13.590	8.008	1.840	(1.036)	(0.735)	(0.907)

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 (voluntary revenue provision – VRP). 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 resources are supplemented each year from new sources (asset sales, revenue underspends, etc). Detailed below are estimates of the year end resource balances and anticipated day to day cash flow balances:

	2019-20 Actual £m	2020-21 Forecast £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
Fund balances/Reserves	26.117	27.461	20.706	20.301	20.368	20.435	20.502
Capital Receipts	4.882	4.269	6.905	5.708	3.052	1.848	1.206
Provisions	4.160	4.160	4.160	4.160	4.160	4.160	4.160
Other	(3.026)	(3.026)	(3.026)	(3.026)	(3.026)	(3.026)	(3.026)
Total Core funds	**32.133**	**32.864**	**28.745**	**27.143**	**24.554**	**23.417**	**22.842**
Working Capital*	**1.640**	**1.640**	**1.640**	**1.640**	**1.640**	**1.640**	**1.640**
(Under)/Over borrowing	**(7.553)**	**(18.358)**	**(17.992)**	**(16.623)**	**(12.954)**	**(12.611)**	**(12.060)**
Expected Investments	**26.220**	**16.146**	**12.393**	**12.160**	**13.240**	**12.446**	**12.422**

*Working capital balances shown are estimated year-end; these may be higher mid-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	2019-20 Actual	2020-21 Forecast	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
	1.9%	2.0%	2.3%	2.7%	2.8%	2.7%	2.8%

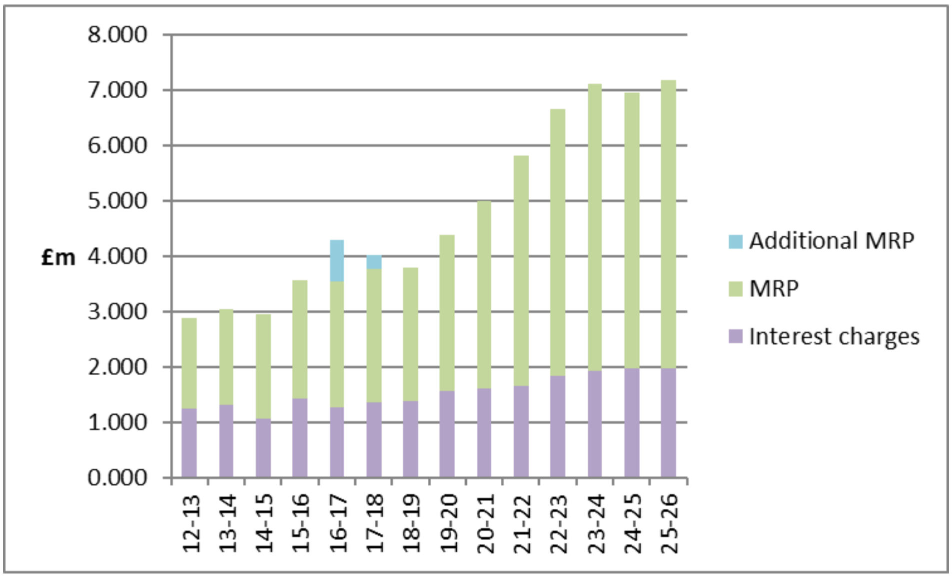
2.7 Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with a reasonable assessment of forthcoming capital proposals, compared to the Commissioners existing approved commitments and current plans. The assumptions are based on current plans, but will invariably include some estimates, such as the level of Government support, which is not published over a three year period. Again this indicator is not a mandatory indicator under the revised code, but it has been reviewed and considered a good indicator of the commitment from capital spending.

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

Ratio	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
	£0.13	£2.54	£5.41	£7.04	£8.15	£9.06

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


8.000
7.000
6.000
5.000
4.000
3.000
2.000
1.000
0.000
£m
12-13
13-14
14-15
15-16
16-17
17-18
18-19
19-20
20-21
21-22
22-23
23-24
24-25
25-26
Additional MRP
MRP
Interest charges

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.

	2019-20 Actual £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
External Debt							
Debt at 1 April	46.349	59.395	58.838	67.212	70.420	73.053	72.662
New Borrowing	14.000	3.000	12.170	6.663	4.174	4.240	4.308
Borrowing Repaid	(0.954)	(3.557)	(3.796)	(3.455)	(1.541)	(4.631)	(4.665)
Movement in Borrowing	13.046	(0.557)	8.374	3.208	2.633	(0.391)	(0.357)
Debt as at 31 March	**59.395**	**58.838**	**67.212**	**70.420**	**73.053**	**72.662**	**72.305**
Capital Financing Requirement	63.606	77.196	85.204	87.043	86.007	85.273	84.365
Other longterm liabilities	3.342	0.000	0.000	0.000	0.000	0.000	0.000
Underlying Borrowing Need	66.948	77.196	85.204	87.043	86.007	85.273	84.365
Under/(over) borrowing	**7.553**	**18.358**	**17.992**	**16.623**	**12.954**	**12.611**	**12.060**
Investments	26.220	16.146	12.393	12.160	13.240	12.446	12.422
Net Debt	**33.175**	**42.692**	**54.819**	**58.260**	**59.813**	**60.216**	**59.883**

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.

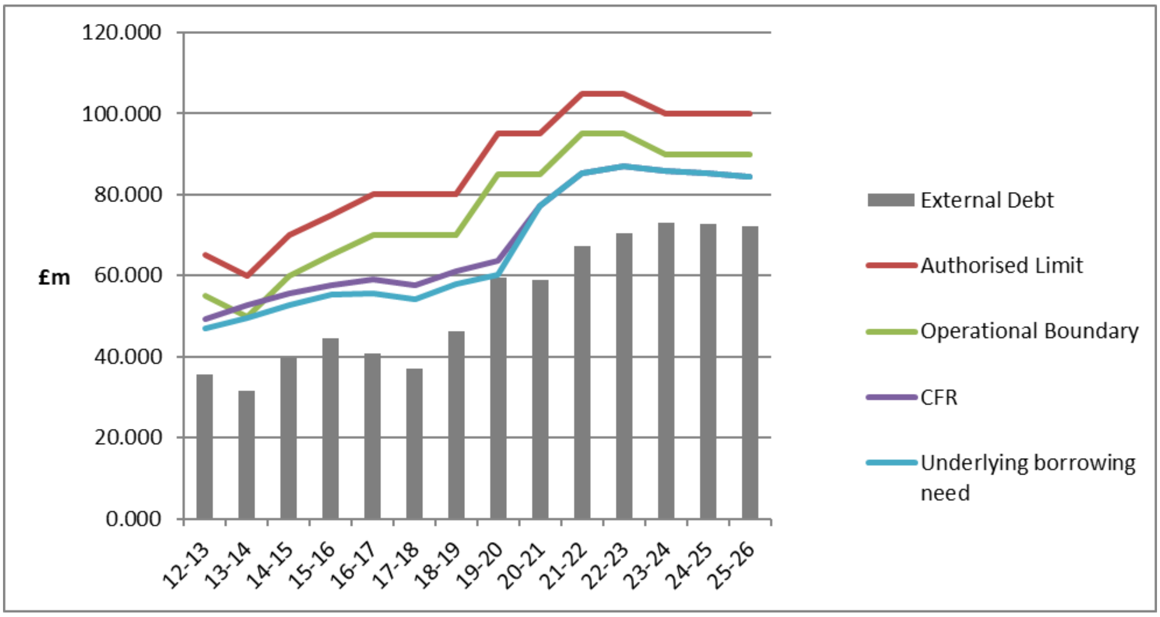
Operational Boundary	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m
	85.000	95.000	95.000	90.000	90.000	90.000

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	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m
	95.000	105.000	105.000	100.000	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 9th November 2020.

Link Group Interest Rate View	9.11.20													
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5yr PWLB	1.80	1.80	1.80	1.80	1.80	1.90	1.90	1.90	1.90	1.90	2.00	2.00	2.00	2.00
10 yr PWLB	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30
25 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.80
50 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.60

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 5th November, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. 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, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

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

- **UK** - further national lockdowns or severe regional restrictions in major conurbations during 2021.
- **UK/EU trade negotiations** – if it were to cause significant economic disruption and downturn in the rate of growth.

- **UK - 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**. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments**. Austria, Sweden, Spain, Portugal, Netherlands, Ireland 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 a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks**, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

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

- **UK -** stronger than currently expected recovery in UK economy, especially if effective vaccines are administered quickly to the UK population and lead to a resumption of normal life and a return to full economic activity across all sectors of the economy.
- **Post-Brexit** – if an agreement was reached that removed the majority of threats of economic 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.

Investment and borrowing rates

- **Investment returns** are likely to remain exceptionally low during 2021/22 with little increase in the following two years.
- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were on negative yields during most of the first half of 20/21.

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 2021-22 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 2021-22 to 2023-24		
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 2021-22 to 2023-24		
	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 offer loans to Local Authorities 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 rates are favourable.

4. ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy

The Commissioner's investment policy has regard to the following:-

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

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.

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 is currently rated AA-.

Approved Non UK countries for investments as at 11th November 2020

Based on lowest available rating

AAA	AA+	AA	AA-
Australia Denmark Germany Luxembourg Netherlands Norway Singapore Sweden Switzerland	Canada Finland U.S.A.	Abu Dhabi France	Belgium Hong Kong 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). While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations - Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	
2021-22	0.10%
2022-23	0.10%
2023-24	0.10%
2024-25	0.25%

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	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £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
- Preparation of a capital strategy to include capital expenditure, capital financing and treasury management, with a long term timeframe

Nottinghamshire

POLICE & CRIME COMMISSIONER

Reserves Strategy 2021-22

December 2020

Reserves Strategy 2021-22

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 continuing with the cost of the pandemic and Brexit being the key drivers affecting the totality of funding for the public sector. At the local level the good news of being able to recruit additional officers remains a challenge and the Force remain ahead of the curve for achieving its recruitment targets. The national target for achieving savings continues and whilst welcomed, it becomes particularly difficult when officer numbers have to be maintained and back office support is 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. The MTFP Reserve has been the source for this, but this has been fully utilised and therefore the General Reserve is the back-up solution for this risk.
- 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 2020-21 financial year and their estimated balance by 1st April 2021.

Details of the **earmarked reserves** available for use in 2021-22 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.

Asset Replacement Reserve

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

37. The repayment of reserves previously utilised has provided this reserve with the necessary balances to fund the joint HQ new build and not require a

significant level of borrowing which could have resulted in a breach of borrowing limits.

38. 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. And produce the Asset Management Strategy to CIPFA standards.

IT Investment Reserve

39. 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

40. 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

41. 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

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

43. This reserve has been reviewed in light of the vehicle PFI contract being terminated. All of this reserve relates to commitments within the Riverside PFI. The transfers and balance will remain until the Building PFI has been terminated.

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 Commissioner'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 Commissioner'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, but their delivery has been delayed due to the pandemic.

Allard Reserve

54. It has been agreed that any further risks associated with this case will be managed within existing revenue budgets. This then “frees up” this balance to fund the bringing back in-house of the vehicle maintenance contract.

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.

Procedure for Use of Reserves

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

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

60. 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

61. 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.

62. 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

63. 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.

64. 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.

65. 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 and this requires significant budget management by the force. 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 2021-22

GENERAL RESERVE

RISK	IMPACT	PROBABILITY	Min £m	Max £m	Proposed for 2021-22 £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 supported by partners continues to reduce. 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 31.03.21 £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.	Chief Finance Officer	On-going	6.781
IT Investment	To provide for investment in new IT software and hardware	In line with the IT strategy	Chief Finance Officer	On-going	0.976
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	1.617
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	5.770
PFI reserve	To fund irregular PFI related expenditure on a smoothed basis. And to provide for end of life PFI expenditure.	Life cycle equalisation for Riverside PFI.	Chief Finance Officer	Annually	0.128
Property Act Fund	Income from the sale of property act confiscations.	To be determined by the Police & Crime Commissioner.	Chief Finance Officer & Commissioner	Annually	0.049

Drug Fund	For use in reducing drug related crime.	To be determined by the Police & Crime Commissioner and CC.	Chief Finance Officer & Commissioner	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	1.698
Animal Welfare	To set up a scheme for animal welfare on retirement as working animals.	Scheme established.	Chief Finance Officer	During the year	0.019
Tax Base	To iron out fluctuations caused between estimated and actual tax base data.	Every 3-4 years to finance Single Person Discount Review.	Chief Finance Officer	Annually	2.107
Night Time Levy	To be utilised to address Night Time economy issues of crime and safety.	To be determined by the Police & Crime Commissioner.	Chief Finance Officer & Commissioner	Annually	0.265
Target Hardening	To be utilised when activity has been identified and agreed with partners.	Once schemes have been approved.	Chief Finance Officer	Annually	0.073
Allard	Once legitimate claims are made and approved for payment	On receipt of claims.	Chief Finance Officer	During the year	0.200
TPAC Collisions	To provide for fluctuations in claims made against the Force.	On receipt of claims above the budgeted.	Chief Finance Officer	Annually	0.100
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 Commissioner's	Annually	1.054
TOTAL					**20.864**

Appendix C (i)

Tables to show the use of General Reserves

	2020-21	2021-22		2022-23		2023-24		2024-25		2025-26	
	01.04.20 Balance £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	01.04.25 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	***3.2%***	*3.0%*		*3.0%*		*3.0%*		*2.9%*		*2.9%*	

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

	2020-21	2021-22			2022-23		2023-24		2024-25		2025-26	
Earmarked Reserves	**01.04.20 Actual £m**	01.04.21 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	Use in year £m	31.03.26 balance £m
MTFP	**0.000**	0.000		0.000		0.000		0.000		0.000		0.000
Asset Replacement	**7.099**	7.659	(5.106)	2.553	(0.203)	2.350		2.350		2.350		2.350
IT Investment	**0.884**	0.884		0.884		0.884		0.884		0.884		0.884
PCC Reserve	**0.817**	1.617		1.617		1.617		1.617		1.617		1.617
Grants & Commissioning	**5.136**	5.765	(0.829)	4.936	(0.300)	4.636		4.636		4.636		4.636
PFI	**0.087**	0.458	(0.330)	0.128		0.128		0.128		0.128		0.128
Property Act Fund	**0.196**	0.049		0.049		0.049		0.049		0.049		0.049
Drug Fund	**0.027**	0.027		0.027		0.027		0.027		0.027		0.027
Revenue Grants	**1.698**	1.698		1.698		1.698		1.698		1.698		1.698
Animal welfare	**0.019**	0.019		0.019		0.019		0.019		0.019		0.019
Tax Base	**1.679**	2.107		2.107		2.107		2.107		2.107		2.107
Night Time Levy	**0.247**	0.265	0.032	0.297	0.032	0.329	0.067	0.396	0.067	0.463	0.067	0.530
Target Hardening	**0.073**	0.073		0.073		0.073		0.073		0.073		0.073
Allard	**1.200**	0.200		0.200		0.200		0.200		0.200		0.200
TPAC Collisions	**0.100**	0.100		0.100		0.100		0.100		0.100		0.100
Joint Ops	**1.054**	1.054		1.054		1.054		1.054		1.054		1.054
TOTAL	**20.316**	**21.975**	**(6.233)**	**15.742**	**(0.471)**	**15.271**	**0.067**	**15.338**	**0.067**	**15.405**	**0.067**	**15.472**