Nottinghamshire Police and Crime Commissioner
Notice of Decision

Nottinghamshire
POLICE & CRIME COMMISSIONER

Author:	Chief Finance Officer
For Decision or Information	Decision
Date received*:	4th February 2016
Ref*:	2016.012

Precept, Budgets and Supporting Reports 2016-17

EXECUTIVE SUMMARY:
The Police and Crime Panel met on 1st February to consider the budget and supporting reports and confirm their support for a precept increase of 1.99%.

Attached to his decision records are the reports that the Panel considered. These have been finalised since the meeting to include information that was tabled and therefore represent the final versions of the budget report.

INFORMATION IN SUPPORT OF DECISION: (e.g report or business case)
The attached reports are:
- Precept Report 2016-17
- Budget Report 2016-17
- Medium Term Financial Plan (MTFP) 2016- 17 to 2019-20
- Reserves Strategy
- Capital Programme 2016-17 to 2019-20
- Treasury Management Strategy

FINANCIAL INFORMATION

The financial information within the attached reports details the financial plans for 2016-17 and outlines the Revenue and Capital Strategies for 2017-18 to 2019-20.

Signature: [redacted] Date: 5th February 2016
Chief Finance Officer

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

DECISION:
The Commissioner is requested to:
- **Formalise the decision to increase the precept by 1.99%**
- **Approve the revenue and capital budgets for 2016-17**
- **Approve the MTFP and its indicative revenue expenditure plans**
- **Approve the Reserves Strategy**
- **Approve the indicative capital expenditure plans**
- **Approve the Treasury Management Strategy**

Nottinghamshire Police and Crime Commissioner
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OFFICER APPROVAL

I have been consulted about the proposal and confirm that the appropriate advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner.

Signature: Date: 11/2/16

Chief Executive

DECLARATION:

I confirm that I do not have any disclosable pecuniary interests in this decision and I take the decision in compliance with the Code of Conduct for the Nottinghamshire Office of the Police and Crime Commissioner. Any interests are indicated below:

The above request has my approval.

Signature: Date: 15/2/16

Nottinghamshire Police and Crime Commissioner

Final Precept Report 2016-17.doc

FINAL Budget Report 2016-17.doc

FINAL MTFP 2016-17 to 2019-20.docx

FINAL Reserves Stratregy 2016-17.dc

FINAL 4 Year Capital Programme 2016-202

FINAL Treasury management strateg

Nottinghamshire

POLICE & CRIME COMMISSIONER

Precept 2016-17

February 2016

The Police & Crime Commissioner's

Precept 2016-17

Introduction

The Nottinghamshire Police & Crime Commissioner is proposing a precept increase of 1.99% for the 2016-17 financial year.

This supports the budget report and the commitment to Rural Crime initiatives and Victims Services, a duty transferred to the Commissioner by the Ministry of Justice during 2014-15. Further priorities include crime prevention and partnership working, both vital to community safety.

Government Assumptions

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

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

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

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

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

Future outlook

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

Costs continue to increase whilst funding reduces slightly. Together with the under delivery against the 2015-16 budget plans this requires significant savings to balance the 2016-17 budget. And for the two years following further efficiencies will be required to reduce base expenditure.

Strategic Alliance

At a meeting of PCCs and Chief Constables on Thursday 17 December, it was agreed that there is a real potential for the creation of a single policing model for three forces – Nottinghamshire, Leicestershire and Northamptonshire.

As a result it was agreed that a more detailed business case will now be developed to define what such an Alliance could constitute, with an intention to introduce unified leadership, a single way of working, uniformity in systems, training, policy and procedures, to ensure a consistently high quality standard of service across the three forces.

The first phase of the Strategic Alliance will look at early alignment across the contact management departments by June 2017 and if the detailed business case proves viable, a full Alliance could be in place by 2020.

Where possible, the budgets for Leicestershire, Northamptonshire and Nottinghamshire have been prepared on common assumptions for Pay Awards, and inflation, creating a common baseline. Discussions continue nationally with the Home Office, PACCTS and the three forces/PCCs to determine common grant assumptions.

Work on the full Business Case which will be completed in Spring 2016 and this will include detailed work on the costs and timings of the Strategic Alliance, together with a preferred funding methodology.

Given these timescales, and that some investment is also subject to Innovation Fund Bids, it is not possible to include this information within the three PCC budgets or Precept reports for 2016/17. Therefore, in respect of Nottinghamshire, costs for Strategic Alliance work will be met from the Capital Programme once identified by the full Business Case and it is intended that an update will be provided on the Treasury Management Strategy and Capital Programme (including revenue consequences) to the June 2016 Police and Crime Panel meeting.

Supporting Reports

The Budget Report and the Medium Term Financial Report on today's agenda details further the plans for 2016-17 and beyond.

The detailed budget for 2016-17, the Medium Term Financial Plan, the Reserves Strategy, the 4 Year Capital Programme and the Treasury Management Strategy are provided for information purposes to the Police & Crime Panel. These have been drawn together to support the Police and Crime Plan, which has been refreshed and which the panel have received and which is currently out for consultation.

Process

When setting the budget and capital programme for the forthcoming financial year the Police and Crime Commissioner must be satisfied that adequate consideration has been given to the following:

- **The Government policy on police spending** – the current economic climate is improving and the forecast is better than anticipated. However, further efficiencies are required.
- **The medium term implications of the budget and capital programme** - the separate report sets out the Medium Term Financial Plan, which is regularly received and updated.
- **The CIPFA Prudential Code** - the separate Treasury Management Strategy report covers the CIPFA Prudential Code, which evaluates whether the capital programme and its revenue implications are prudent, affordable and sustainable. The implications of borrowing to finance the unsupported element of the capital programme are incorporated within the proposed revenue Budget for 2016-17 and the Medium Term Financial Plan.
- **The size and adequacy of general and specific earmarked reserves** - the current forecast of the general reserves at 31 March 2016 is £7 million. This is higher than the minimum 2% level in the approved reserves strategy and is considered by the Chief Finance Officer to be an adequate level for the year ahead. The Chief Finance Officer considers that all of the earmarked reserves set out in the Reserves Strategy, whilst not excessive are currently adequate to cover the purposes for which they are held and provide some robustness against the risks identified within the budget. It is noted that Nottinghamshire's reserves are the third lowest in the country.
  The Chief Finance Officer also confirms that the budgeted insurance provision is fully adequate to meet outstanding claims.
- **Whether the proposal represents a balanced budget for the year** - the assurances about the robustness of the estimates are covered in **Section 8** of this report. The proposals within this report do represent a balanced budget based upon an assumed 1.99% maximum increase in the Police & Crime Precept on the Council Tax.
- **The impact on Council Tax** - this is covered in **Section 7** of this report.
- **The risk of referendum** – the limit set for requiring a referendum is a 2% increase on the precept for all Police and Crime Commissioners. The proposed increase of up to 1.99% is just below the limit set (further detail is provided in **Section 6**).

1. COUNCIL TAX BASE

For 2016-17 the Billing Authorities continue with the local Council Tax Support Schemes introduced in 2013-14. There have not been any significant changes affecting the individual schemes, although collection rates continue to be higher than anticipated

The Billing Authorities are working hard to keep collection rates up and as a consequence all have seen an increase in estimated tax bases. This is also partly due to an increase in the number of new properties in each area.

The estimated tax base as notified by the unitary and district councils (Billing Authorities) has increased by 1.86% overall, constant with last year's increase of 1.83%.

Tax base	Band D Properties 2015-16 No	Band D Properties 2016-17 No	Change %
Ashfield	31,052.20	31,936.30	2.85
Bassetlaw	32,545.35	33,079.77	1.64
Broxtowe	32,400.60	32,806.55	1.25
Gedling	35,610.06	36,104.62	1.39
Mansfield	27,751.40	28,272.00	1.88
Newark & Sherwood	36,770.96	37,378.90	1.65
Nottingham City	61,047.00	62,091.00	1.71
Rushcliffe	39,923.10	40,959.60	2.60
Total	297,100.67	**302,628.74**	**1.86**

It is intended that any impact from a change between the estimated tax base and the actual tax base will be met from or will contribute to reserves. There is no impact for 2016-17.

2. COLLECTION FUND POSITION

Each billing authority uses a Collection Fund to manage the collection of the Council Tax. For 2016-17 the surplus continues to increase as collection rates are better than anticipated. A breakdown is provided in the table below:

	Collection Fund	
Surplus/(deficit)	**2015-16 £**	**2016-17 ACTUAL £**
Ashfield	114,087	98,418
Bassetlaw	105,189	142,071
Broxtowe	30,472	82,806
Gedling	83,253	105,007
Mansfield	46,542	69,066
Newark & Sherwood	0	28,857
Nottingham City	252,916	420,872
Rushcliffe	80,186	77,506
Total	712,645	**1,024,603**

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

3. COUNCIL TAX FREEZE GRANT

For 2016-17 the Government has not offered a freeze grant equivalent to a 1.0% increase in the council tax. It has assumed that there will be a 2% increase in precepts across the Country.

4. COUNCIL TAX LEGACY GRANT

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

There is no change in the Legacy Grant for 2016-17 at £9.7m. This grant will be considered as part of the Funding Formula Review.

5. CONSULTATION

APPROACH

The Police and Crime Commissioner has a wide remit to cut crime and improve community safety in Nottingham and Nottinghamshire. Various consultation and engagement exercises were conducted in 2015/16 in line with the Commissioner's duty to consult local communities on their priorities and perceptions. This report presents a consolidated picture of the consultation and research methods employed and their headline findings in order to inform the Police and Crime Plan 2016/18, setting of the 2016/17 precept for policing and broader policy and planning activity.

The consultation activities have included:

- Evidence collected through the Nottingham City Council and the City's Crime and Drugs Partnership Annual Respect Survey and the Nottinghamshire County Council Annual residents Satisfaction Survey 2015.
- The Commissioner's online consultation questionnaire and public opinion poll.
- Focus groups commissioned in Nottingham (City), North Nottinghamshire (Worksop) and Nottinghamshire (Mansfield).
- Additional local public engagement activity in Nottingham and Nottinghamshire.

KEY FINDINGS

Public consultation and engagement activity undertaken in 2015 indicates that the proportion of residents supporting a rise in the council tax precept for policing remains marginally higher than the proportion that do not.

Around a quarter of respondents, however, were not sure whether they supported an increase in the precept or not. Residents aged 18 to 24 appear most uncertain as to whether they support increase.

Reflecting findings from previous years, Nottingham City residents are marginally more likely to not support an increase in their council tax precept. Those that do not support an increase predominantly feel that they already pay enough or cannot afford to pay more.

Qualitative research indicates that while many residents are prepared to pay more for policing, they also require greater transparency is required with regard to spending, service delivery and value for money.

Many residents also feel that that any rise in precept should be used to protect and increase visible local policing and improve efficiency and effectiveness.

While around three quarters of all respondents to local authority level surveys felt unsure as to where future financial savings to the police service should be made, there appears to be a commonly held view that efficiencies can be made through better prioritisation, reducing bureaucracy, improving the workforce balance and reducing the senior ranks/pay.

A significant proportion of respondents also supported reductions in the cost and role of the Police and Crime Commissioner/Office, better use of specials and volunteers and exploring opportunities for fundraising and revenue.

Reflecting national findings, burglary, youth-related ASB and drug use and dealing remain the most prevalent crime and community safety related concerns for local residents.

Support for the Police and Crime Commissioner's strategic priorities appears strong – most notably with regard to the priority of protecting, supporting and responding to victims, witnesses and vulnerable people.

KEY RECOMMENDATIONS

The Police and OPCC should:

- Continue to inform, consult and engage local communities with regard to more detailed savings plans and their implications and understand the views of those who are most likely to feel unsure as to whether they would be prepared to pay more for policing (e.g. people aged 18 to 24).

- Further develop the profile of community issues and concerns, particularly through the use of segmentation tools and findings form other local engagement activity and neighbourhood level priority setting.

- Ensure community issues and concerns identified are used to inform approach to community reassurance and engagement, particularly in providing residents with the information and advice that they need to be safe and feel safe.

- Continue to ensure openness and transparency in demonstrating how value for money is being delivered. This appears to be key factor in securing public support for rises in the local council tax precept for policing.

- Continue to provide feedback to communities on the feasibility and cost/benefit of different saving options and planned activity, informed by public views presented via the 2015 consultation.

- Maximise opportunities to raise public awareness and understanding with regard to community and volunteering roles and opportunities, the role, activity and outcomes of the Police and Crime Commissioner and the way in which policing resources are used and prioritised.

- Consider opportunities to:
    - Develop understanding of the level of increase that local residents support and explore views in respect of the referendum implications of a precept rise exceeding 1.99%

    - Standardise question sets and develop a structured programme of public consultation and engagement activity in partnership with other agencies.

    - Develop, co-ordinate and where possible consolidate research that explores fear and perception of crime and ASB and community priorities in order to deliver economies of scale and benchmarking opportunities.

6. 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. From 2012-13 onwards, the Secretary of State is required to set out principles annually, determining what increase is excessive. For 2016-17 the principles state that, for Police and Crime Commissioners, an increase of more than 2% in the basic amount of council tax between 2015-16 and 2016-17 is excessive.

For 2016-17 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 2016-17 estimated calculation:

$$\frac{£54,445,936.61}{302,628.74} = £179.91 \quad (1.99\%)$$

With a 2% increase the Band D equivalent charge would be £179.93.

This year the Referendum limit has been announced at the time of settlement notifications. It has been set at 2% for 2016-17.

7. RECOMMENDATION ON THE LEVEL OF POLICE & CRIME PRECEPT ON THE COUNCIL TAX

As discussed in the Budget report resources have been allocated to support the police and crime plan. In assessing appropriate spending levels, consideration has been given to the significant unavoidable commitments facing the Police & Crime Commissioner including pay awards, and pension liabilities. Due regard has been given to the overall cost to the local council tax payer. Consideration has also been given to the projected value of the available reserves and balances and the medium term financial assessment (both reported separately).

The Commissioners proposed spending plans for 2016-17 result in a Police & Crime Precept on the Council Tax of £179.91 for a Band D property, representing an increase of 1.99%.

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

To achieve a balanced budget with reduced grant income an increase in the Police & Crime Precept has been required. This is on top of significant budget reductions and efficiencies to be achieved in year.

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

	2015-16 Budget £m		**2016-17 Budget £m**		**Increase/ Decrease £m**	
Budget	191.2		190.2		1.0	(-)
External Income	136.5	(-)	135.8	(-)	0.7	(+)
Collection Surplus	0.7	(-)	1.0	(-)*	0.3	(-)
Reserves	1.6	(-)	1.0	(+)*	2.6	(+)
Precept	**52.4**	**(-)**	**54.4**	**(-)**	**2.0**	**(-)**
Council Tax Base	297,100		302,629		5,474	
Council Tax Band D	£176.40		£179.91		£3.51	
Council Tax Band A	£117.60		£119.94		£2.34	

'* Collection fund surplus/deficit total transferred to reserves

The overall Police & Crime Precept to be collected on behalf of the Police & Crime Commissioner for 2016-17 is:

	£m	
Budgeted Expenditure	190.2	+
Less income from:		
Police & Crime Grant	126.1	(-)
Legacy Council Tax Grant	9.7	(-)
Collection Fund surplus	1.0	(-)
Net contribution to/from Balances	1.0	(+)
Police & Crime Precept on the Council Tax	54.4	(-)

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

Police & Crime element of the Council Tax

Band	**2015-16 £**	**2016-17 £**
A	117.60	119.94
B	137.20	139.93
C	156.80	159.92
D	**176.40**	**179.91**
E	215.60	219.89
F	254.80	259.87
G	294.00	299.85
H	352.80	359.82

Amounts to be raised from Council Tax in each billing authority area 2016-17:

	ACTUAL Precept amount to be collected £	Collection Fund Surplus/(Deficit) £	Total amount due £
Ashfield	5,745,659.73	98,418.00	5,844,077.73
Bassetlaw	5,951,381.42	142,071.00	6,093,452.42
Broxtowe	5,902,226.41	82,806.00	5,985,032.41
Gedling	6,495,582.18	105,007.00	6,600,589.18
Mansfield	5,086,415.52	69,066.00	5,155,481.52
Newark & Sherwood	6,724,837.90	28,857.00	6,753,694.90
Nottingham City	11,170,791.81	420,872.00	11,591,663.81
Rushcliffe	7,369,041.64	77,506.00	7,446,547.64
Total	**54,445,936.61**	**1,024,603.00**	**55,470,539.61**

Collection Dates

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

	£
2016	
20 April	5,547,054.00
26 May	5,547,054.00
01 July	5,547,054.00
05 August	5,547,054.00
12 September	5,547,054.00
17 October	5,547,054.00
21 November	5,547,054.00
2017	
03 January	5,547,054.00
02 February	5,547,054.00
09 March	5,547,053.61
	55,470,539.61

8. ROBUSTNESS OF THE ESTIMATES

The Chief Finance Officer to the Police & Crime Commissioner has worked closely with Director of Finance (Strategic Alliance) to ensure assurance on the accuracy of the estimates can be provided. There have been weekly meetings between the Commissioner, Chief Constable and their professional officers.

2015-16 has proven to be a hard year in achieving the balanced budget set in February 2015. Errors in estimated budgets have been identified as the main cause for concern and therefore new controls have been required to ensure such errors would not recur in the future. Internal Audit has reviewed the problems that have occurred and the processes subsequently put in place by way of control.

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. There are insufficient reserves to provide relief should the efficiency plan fail to be delivered.

The balanced budget is based upon the recommended 1.99% increase in Council Tax for 2016-17.

Nottinghamshire
POLICE & CRIME COMMISSIONER

Budget 2016-17

February 2016

INTRODUCTION

Since setting his first budget for 2013-14, which was itself challenging, the pressure on the Commissioner's budget has increased substantially. Over the last four years efficiency savings of £42.6m have been needed to deliver annual balanced budgets.

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

2015-16 has proved to be the toughest year to date. Efficiency programmes have not been delivered in full and in addition to this errors in the budget were identified during the year. This has resulted in an estimated £9.3m being required from reserves to balance the budget. This does not include any costs associated with the Voluntary Redundancy Scheme where payments may be required by the end of the year for which there is no budget provision or saving to offset.

2016-17 was always going to be a challenging year, not only were we expecting grant cuts against a picture of increasing usual costs (e.g. pay awards and price inflation), we were also planning for an estimated £3.5m cost pressure from the change in National Insurance contributions.

The Government Provisional Grant settlement was announced in December and this was much better than we had been planning for. The Final Settlement report will be lodged with Parliament on the 3rd February with debate in the House on the 10th. It will be the one of first occasions where English Votes for English Laws (EVEL) is applied.

In creating the budget for 2016-17 additional cost pressures of £11m have been identified and an efficiency plan of £12m has been developed. This is less than originally anticipated due to the better settlement and in part due to the increase in the council tax base which delivered £1m more than estimated.

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

- Real progress is being made with the implementation and review of plans to tackle challenging areas of performance.
- Reductions continue in key areas such as burglary, robbery and vehicle crime.
- The Force is implementing its far-reaching 'Delivering the Future' change programme, focusing on how it can improve every area of the business to become more efficient and effective.
- The Commissioner and Force have been working closely with regional forces and local partners to reduce cost and maintain service provision. Pivotal to this is the development of a Strategic Alliance with Leicestershire and Northamptonshire.

- Previous success at bidding for additional Innovation funding has resulted in 3 key projects being bid for 2016. These include the Strategic Alliance, E-Cins link to NICHE and Public Private Partnership Intelligence Collaboration (3PIC).
- Performance continues to improve and is on target for a small reduction by the end of 2015-16 compared with 2014-15.
- Resources provided to local partners and third sector organisations via the Commissioner's own funding streams are delivering real improvements in the support provided to victims; tackling issues such as domestic abuse, sexual exploitation of young people, hate crime and alcohol-related problems; and the reduction of crime and ASB within our communities.
- For the 2015-6 year the PCC had previously awarded contracts to Victim Support and Remedi to provide cope and recover support and restorative justice for victims. In addition, he awarded grants to Age UK and Integritas to support specific groups of vulnerable victims.
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- During 2015-6 the PCC co-commissioned new domestic abuse support services with Nottinghamshire County Council, awarding contracts to Nottinghamshire Women's Aid and WAIS. The new contracts began on 1 October 2016 and will run for three years.
- He also co-commissioned new domestic and sexual abuse support services in the city with Nottingham City Council and Nottingham Clinical Commissioning Group. Contracts have been awarded to WAIS, Equation and Nottingham Rape Crisis.
- The PCC is working closely with the clinical commissioning groups in the county and Nottinghamshire County Council with the aim of co-commissioning new sexual abuse support services in the county during 2016.
- A focus on early intervention and crime prevention is designed to see demand for services reduced.
- Rural crime continues to be a priority for the Commissioner and during the year a proactive Rural Crime Team of Special Constables was established and trained in specialist knowledge on how to tackle wildlife and rural crime issues. The Community Road Safety Programme has been extended to rural areas to tackle speeding problems and Automatic Number Plate Recognition (ANPR) cameras installed in Ashfield and imminently in Bassetlaw. The Commissioner has also developed a dedicated rural crime web site to help people who live in rural crime areas. Operations Traverse and Nabraska 3 are dedicated operations to tackling rural crime issues. Furthermore, the Commissioner has introduced rural crime performance measures and police response times so that he can be assured that residents living in rural communities are not disproportionately affected by any changes to police operating response models

- The importance of appropriate care for those in mental health crisis has been acknowledged by a wide range of partners, all of whom have signed up to the Mental Health Concordat. Fewer people suffering mental impairment are detained in custody suites - down 80% compared to 2014/15.
- Almost three quarters (74%) of all respondents to the Nottinghamshire Residents Satisfaction Survey reported feeling safe (either very or fairly safe) in their local area when outside after dark.
- Plans to redesign the police estate to make it more suitable for modern day needs are being implemented, reducing overheads and driving modernisation. In turn this work will increase officer visibility as the adoption of new technology becomes more widespread.

Throughout the year the Commissioner and the Deputy PCC have been out and about throughout the City and the County meeting and listening to members of the public, stakeholders and partners. The feedback from these visits helps to shape the refreshing of the Commissioner's Police and Crime Plan, for which this budget seeks to provide the appropriate resources.

The budget gap of £12m is being met through efficiencies identified by the force, which also include savings from regional collaboration, and the transformational change programme 'Delivering the Future'.

While a large percentage of these savings will be delivered in-year, more work is needed. The risks relating to the delivery of these efficiencies relate to dependency on regional partners; the rate at which change can be delivered; and the ability of the force to drive the full level of efficiencies needed in-house. Later on in this report, the proposed way forward is discussed in more detail.

1. BUDGET 2016-17

The Commissioner welcomed the new Comprehensive Spending Review and following Provisional Settlement announcement. The protection being given to policing by the Chancellor in the Settlement meant that the anticipate cuts in funding of 25-40% have not emerged.

However, there is still much to do. A standstill in funding means that savings are required to meet day to day increases in prices and pay. On top of this Nottinghamshire has to tackle the continuing impact of the 2015-16 budget shortfall.

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 2016-17	2016-17 £m
Core Grants and Funding	
Police & Crime Grant	(126.1)
Council Tax Legacy Grant	(9.7)
Sub-total Core Grants	**(135.8)**
Precept	**(54.4)**
Collection Fund (surplus)/deficit	(1.0)
Total Funding available	**(191.2)**

Final confirmation of grant settlement has been laid before Parliament. There has been no change to the made since the provisional announcement in December.

The Referendum Limit was announced at the same time as the provisional settlement and is set at 2% for 2016-17.

No estimate for the use of reserves has been planned for 2016-17 as the levels of reserves held are becoming a risk to the financial viability of the organisation.

Collection fund surplus/deficits declared by Billing Authorities will be transferred to reserves and the tax base used to calculate the precept amount is based upon the final declarations from the Billing Authorities.

The precept figure above assumes that the Police & Crime Panel support the Commissioners decision to increase precept by 1.99%. The Home Office has assumed that there will be a 0.5% increase in the tax base and a 2% increase in the precept in calculating the grant amount.

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

1.2 Summary Expenditure

The Commissioner is required to set a balanced budget each year for the following financial year.

With a reduction in grant income and increased pressures from inflation, pay awards and new responsibilities this inevitable means efficiencies have to be identified and delivered in order to balance the budget.

Expenditure 2016-17	**2016-17 £m**
Previous Expenditure	191.2
In year increases	11.0
Sub-total Expenditure	**202.2**
Efficiencies	(12.0)
Transfer to Reserves	1.0
Total Net Expenditure	**191.2**

National Insurance changes account for £3.5m and inflation increases account for £2m of the in year increases above. This is detailed further in the sections relating to expenditure.

Further detail on expenditure and efficiencies is provided later within this report.

At the time of writing this report we had submitted bids for Innovation Fund financing from the Home Office, building on successful bids in the previous three years and the transformational work underway. We will be notified in March as whether our local and regional submissions have been successful.

2. Budget breakdown

Annex 1 details the proposed expenditure budget for 2016-17. The proposed revenue budget is £190.2m.

Net Expenditure Budget	2016-17 £m	Note
Employee	156.8	2.1
Premises	6.0	2.2
Transport	6.5	2.3
Supplies & Services	14.9	2.4
Agency & Contract Services	13.1	2.5
Pensions	4.0	2.6
Capital Financing	5.7	2.7
Income	(4.8)	2.9
Efficiencies	(12.0)	3.2
Net Use of Reserves	1.0	2.8
Total Net Expenditure	**191.2**	**Annex 1**

2.1 Employee Related Expenditure

2014-15 saw the first year of a full recruitment freeze across Police Officer's, PCSO's and Police Staff. This Freeze will continue into 2016-17. This means that the implementation of the change programme "Delivering the Future" becomes key to the way in which we will work and the way in which we will deliver the service.

A pay award has been included in the budget at 1% payable from 1st September each year. Employee expenditure accounts for approximately 80% of the total expenditure budget.

Annex 2 details the budgeted staff movement between the current year and 2016-17. Annex 3 details the budgeted police officer, police staff and PCSO numbers for 2016-17.

2.2 Premises Related Expenditure

Over the past few years the Commissioners estate has been reduced in order to achieve efficiencies, but also to ensure resources are allocated based upon need and to facilitate planned changes in working arrangements. Such changes will include remote working through better technologies ensuring officers are in the communities and not stations and hot-desking to ensure optimal use of the space available.

Premises related expenditure includes the provision of utility services to those properties and these are elements of the budget that are adversely affected by inflation. For 2016-17 inflation for gas and electricity has been budgeted at 2.0%.

2.3 Transport Related Expenditure

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

2.4 Supplies and Services Expenditure

This category of expenditure captures most of the remaining items such as insurance, printing, communications, information technology (IT) and equipment.

Some of the IT systems that the Force uses are provided through national contracts that the Home Office recharge the Force for. A recent notification from the Home Office sees the total cost of these systems increasing substantially again and we have been informed that total police grant will be top sliced in future for this expenditure.

For all other expenditure an inflation factor of 2.0% has been applied in 2016-17.

2.5 Agency & Contract Services

This category of expenditure includes agency costs for the provision of staff, professional services such as internal and external audit and treasury management, and the costs associated with regional collaboration.

A breakdown of the costs associated with this classification is summarised below:

Analysis of Agency & Contracted Services	**2016-17 £m**
Agency Costs	0.4
Collaboration Contributions	8.6
Community Safety Grant	3.4
Other partnership costs	0.6
TOTAL	**13.0**

The costs associated with the use of agency staff have been a concern for sometime and going forward will need to be very carefully managed and reduced.

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 £8.6m for 2016-17. No savings have been assumed within this budget for collaboration or Innovation Projects.

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

The final business case for this major transformation is due in March and therefore any required changes to either the revenue or capital budget as a result of this will be reported within the first quarter of 2016-17.

2.6 Pensions

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

There are two areas of increasing costs in relation to pensions. These are the employer contribution to the LGPS and the increasing number of medical retirements of police officers.

The impact of the change to employers' national insurance contribution rates for the state pension changes, have been included at £3.5m.

The budgeting for medical retirements remains an issue with the number of medical retirements and the associated costs increasing significantly above the original budget.

For 2016-17 there has been a cost pressure for the increase following the Actuarials report this totalled £463k and is incorporated within the figures given above.

2.7 Capital Financing Costs

This relates directly to the value of the capital expenditure in previous years. The proposed capital programme for 2016-17 has been limited and the 2015-16 programme reduced in year. Priority has been given to projects where collaborative commitment has been made (e.g. Innovation fund projects).

This will assist in managing down the capital costs in the future. Slippage from this financial year will also need to be prioritised.

Currently, market rates are favourable and therefore the cost of borrowing is low. However, our advisors predict an increase in rates commencing in 2016-17.

In 2015-16 we undertook a review of the methodology for calculating MRP charges and this resulted in a significant saving in years and into 2016-17. This is included within the efficiencies.

2.8 Use of Reserves

This has been used to finance transformational change and the cost of redundancy in the past few years. Now reserves themselves are becoming a scarce resource and these costs need to be met from the efficiency programmes themselves.

The surplus on the collection fund is notified too late for budget calculations and will therefore be transferred to reserves.

2.9 Income

This is not a major activity for the Force. Income is currently received from other grants (e.g. PFI and Counter Terrorism), re-imbursement for mutual aid (where the Force has provided officers and resources to other Forces), some fees and charges (such as football matches and other large events that the public pay to attend) and from investment of bank balances short term.

3. Efficiencies

During the last CSR period the force needed to deliver £42.6m in efficiencies. It is estimated that by the end of this financial year £32.7m will have been achieved. As reserves are now significantly low for an organisation of our size it is essential that efficiency targets are achieved particularly in 2016-17.

3.1 2015-16 Efficiencies

As part of the 2015-16 budget the following efficiencies were required in order to set a balanced budget.

Each year achieving cuts in expenditure becomes harder and this year the prediction is that there will be a shortfall of just under £7.7m against the required savings. Any shortfall will need to be met from budget underspends or reserves.

The table below details the efficiencies planned and the forecast position for 2015-16:

Efficiencies 2015-16	Original £m	Forecast £m
Collaboration	1.8	1.0
Procurement	0.8	0.0
Estates & Fleet	1.2	0.2
Corporate Services	2.7	2.9
Operational Efficiencies	3.3	3.2
Income Generation	0.4	0.0
Commissioners Office	0.1	0.0
Other	0.7	0.2
TOTAL	**11.0**	**7.5**

The savings for the Commissioner's Office were offset in year by the transfer of budget from the Force for MARAC, the SARC and Prevent.

The total amount of efficiencies not being achieved is £3.5m. In addition to this additional cost pressures totalling £4.2m were identified during the year.

3.2 2016-17 Efficiencies

In order to balance the budget for 2016-17 savings and efficiencies of £12.0m need to be delivered.

The efficiencies identified to deliver a balanced budget in 2016-17 are summarised in the table below:

Efficiencies 2015-16	£m
MRP	1.0
Reduction of officers and staff	5.0
Non Pay savings	1.7
Overtime reduction	0.3
Reduction of Acting Up	0.5
VR, DTF and shift review	3.5
Total	**12.0**

3.3 The Commissioner is of the view that achieving these efficiencies will be challenging. He has mapped out a programme of work and monitoring with the Force.

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

3.5 The work on the Strategic Alliance has yet to be factored into these budget figures. However, it is anticipated from the initial business case that significant savings can be delivered, with a payback period of 3.8years.

4. External Funding

There is an assessment of the financial risk in respect of external funding currently provided. In 2016/17 30 officers and 63 staff are funded externally and are not added within the expenditure and workforce plans. This could be an additional pressure in future years as funding pressures mount for partners.

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

In addition to these we have 44 Police Officers seconded out of the organisation in 2016-17. This compares with 47 seconded officers in 2015-16.

Annex 1

2016-17 Commissioner's Total Budget (£m)

	Total Budget 2016-17
Payroll	
Police Pay & Allowances	102.0
Police Overtime	3.3
Police Staff Pay & Allowances	49.9
Police Staff - Overtime	0.6
Other Employee Expenses	1.0
	156.8
Other Operating Expenses	
Premises Running Expenses	6.0
Transport	6.5
Equipment, Furniture & Materials Expenses	0.5
Clothing, Uniform & Laundry	0.5
Printing & Stationery	
Comms & Computing	7.8
Miscellaneous Expenses	4.2
Supplies & Services	5.3
Agency & Contract Services	9.7
Pensions	4.0
Capital Financing	5.7
	50.2
Total Expenditure	**207.0**
Income	
Special Services	(0.3)
Fees, Reports & Charges	(0.3)
Other Income	(4.1)
Other Operating Income	(0.1)
	(4.8)
Efficiencies	**(12.0)**
Net Use of Reserves	**1.0**
Total	**191.2**

Workforce Movements Budget 2015-16 v Budget 2016-17

	2015-16 Budgeted Total FTE's	2016-17 Budgeted Total FTE's	Movements FTE's
Police Officers			
Local Policing	1,306	1,269	(37)
Specialist Services	493	454	(39)
Corporate Services	42	39	(3)
Region	81	128	47
	1,922	**1,841**	**(81)**
Police Staff			
PCSO	253	228	(25)
Other Police Staff	1,221	1,312	91
	1,474	**1,540**	**66**
TOTAL	**3,396**	**3,381**	**(15)**

The above table implies a recruitment position for Police Staff however, this is not the case.

When the 2015-16 budget was prepared the Force was planning an alliance with Northamptonshire Police for all business service functions. This assumed 47 members of staff would retire or take redundancy. The PBS project was put on hold when the decision to consider a Strategic Alliance with Leicestershire and Northamptonshire started to be developed.

A decision was also taken to commence earlier than planned the recruitment of PIO's prior to the recruitment freeze. These were not included in the budget workforce at the time of the budget report in 2015 and were financed by the reduction in Police Officers.

Workforce Plan FTE's

	2016-17				
	Local Policing FTE's	Specialist Services FTE's	Corporate Services FTE's	Region FTE's	Total FTE's
Police Officers					
Opening balance	1,306	493	42	81	**1,922**
Restructure					
Retirement / Leavers	(37)	(39)	(3)	(2)	**(81)**
Recruitment					
	1,269	**454**	**39**	**79**	**1,841**
Police Staff					
Opening balance	380	465	349	27	**1,221**
Restructure	21	23	47		**91**
Recruitment					
	401	**488**	**396**	**27**	**1,312**
PCSOs					
Opening balance	253				**253**
Recruitment/ Leavers	(25)				**(25)**
	228				**228**
Opening Balance	1,939	958	391	108	**3,396**
Movement	(41)	(16)	44	(2)	**(15)**
Closing Balance	**1,898**	**942**	**435**	**106**	**3,381**

Nottinghamshire
POLICE & CRIME COMMISSIONER

Medium Term Financial Plan

2016-17 to 2019-20

February 2016

Commissioners

Medium Term Financial Plan

Introduction

This document is part of the overall financial framework of the Police & Crime Commissioner. It builds on the budget proposed for 2016-17 and incorporates plans to meet changes in available financing with the need to meet current and future commitments.

Within the current economic climate the Government has made significant reductions in public sector finances.

The previous Comprehensive Spending Review (CSR) Nottinghamshire needed to deliver £42million in efficiencies in order to balance the budget and improve performance. Continuous achievement of these substantial cuts is proving more difficult as time progresses and 2014-15 and 2015-16 will see the efficiency targets not being achieved. The latest CSR announcement is better than had been anticipated, but still leaves much to be done to continue delivering a service within a balanced budget.

Whilst the cuts to grant funding are relatively small, costs continue to increase and with salary increases the pressure to deliver savings continues. For 2016-17 Nottinghamshire faces some significant pressures from changes in employer contributions for National Insurance and making up the budget gap from 2015-16, where reserves are being used to bridge a significant gap in achieving a balanced budget.

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

A funding formula review had been started with the intention to bring a simplified approach to police funding in place for April 2016. However, this has now been delayed and will not be in place before April 2017.

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

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

The Police & Crime Commissioner has produced a Police & Crime plan, which has been refreshed to include the feedback and comments made by stakeholders, partners and the public over the last 12 months.

The Police & Crime Plan is built upon the following 7 strategic priorities:

- Protect, support and respond to victims, witnesses and vulnerable people.
- Improve the efficiency, accessibility and effectiveness of the criminal justice process.
- Focus on those priority Crime types and local areas that are most affected by crime and anti-social behaviour.
- Reduce the impact of drugs and alcohol on levels of crime and anti-social behaviour.
- Reduce the threat from organised crime.
- Prevention, early intervention and reduction in re-offending.
- Spending your money wisely.

At the time of writing this report there was no clarity on the split between main grant and Top Slicing in the Home Office budget for policing. However, the Home Office has said that they are working on this and hope to provide clarity on the next 4 years shortly. This may be available when the final confirmation of the settlement is laid before Parliament in February.

Funding

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

1. The amount of grant funding is reduced by £0.7m.
2. The Home Office assumption after accounting for a 2% precept increase and 0.5% tax base increase is that our total core funding available is £189.5m. The estimates within the precept report show that the tax base increase is just over 1.8% resulting in total funding available of £190.2m.
3. However, the cost pressures that we are also seeing are also having an adverse effect (i.e. pay wards of 1%, inflation at just over 1% and the impact of national insurance changes for the state pension estimated at £3.5m) especially as the funding available continues to reduce.
4. 2015-16 is the second year that the force has had difficulty in achieving a balanced budget, as a result of not achieving the efficiency plans. This shows how increasingly difficult it is becoming to deliver on average over £10m in savings each year. There is a possibility that the MTFP reserve will need to be utilised in full for 2015-16. This has a consequential impact on the budget for 2016-17.
5. The Commissioner at a local level and regional level continues to bid for additional funding being allocated by the Home Office from the Innovation Fund. We have previously been successful in relation to bidding for this additional funding. The criterion for such funding continues to tighten.
6. A Police Funding Formula Review is underway and the results of this will be incorporated from 2017-18 onwards.

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

Funding Available	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
Police & Crime Grant	126.8	126.1	123.4	120.7	118.1
Council Tax Legacy Grant*	9.7	9.7	9.7	9.7	9.7
Precept	52.4	54.4	55.8	57.2	58.6
Collection fund surplus/(deficit)	0.7	1.0**			
TOTAL	**189.6**	**191.2**	**188.9**	**187.6**	**186.4**

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

**The surplus to be received in 2016-17 will be transferred to reserves

Investment

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

Nottinghamshire is a significant partner in all regional collaborations and collaborations which go outside of the region. More recently the Commissioners of Nottinghamshire, Leicestershire and Northamptonshire have agreed to form a Strategic Alliance for all policing and support functions.

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

Investment continues to be made at a regional level and collaboration is well established within the East Midlands. Many specialist policing services such as major crime, roads policing and serious and organised crime are provided through regional teams.

The Commissioner has reduced the size of the police estate and invested in IT to ensure officers are out within our communities for longer.

Under the Commissioners wider remit of "and Crime" and Victims Services the Commissioner is investing in new ways of service delivery and crime prevention.

Savings and efficiencies

The settlement this year and indications for the CSR period is better than anticipated. However, 2016-17 has significant pressures which need to be made in order to balance the budget.

Funding itself remains broadly at a standstill position although costs and salaries continue to increase and additional burdens from national insurance changes all total £10m approximately in new costs to be covered.

In addition to this pressures from 2015-16 will impact on 2016-17 also and these have been estimated as totalling £11m.

Further efficiencies will need to be delivered as the level of reserves diminishes and could affect financial viability. We currently hold the third lowest level of reserves across policing in England and Wales.

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

Efficiencies	2016-17 £m
MRP	1.0
Reduction of Officers and Staff (DTF)	5.0
Non Pay savings	1.7
Reduction in acting up	0.5
Voluntary redundancy, DTF Business cases, Shift review	3.5
Internal Efficiencies	**12.0**

The Commissioner is conscious of the risks associated should the efficiencies and savings identified not be achieved in the year that they are required and that achieving them will be a challenge.

The Commissioner is mindful that should there be some slippage in implementing these efficiencies then further savings will need to be identified and delivered in year.

Following the estimated requirement for £9.3m of reserves in 2015-16 there is insufficient reserves available should the efficiency programme not be delivered in full. Plans to replace the reserves utilised over recent years are planned to commence in 2018-19.

Risks in the Medium Term

Collaboration and Innovation

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

We have also been successful in obtaining Innovation Grant Funding to pump prime new areas of collaborations and new ways of working that will generate future savings. The costs associated with Innovation Projects have been included, but no savings have been estimated at this stage. This will continue to be monitored and updated as the level of potentials savings is realised.

Devolution

At a local level the Commissioner is supportive of the Devolution agenda. However, the elections in May 2016 will be appointing a PCC for a further 4 years. How this is then incorporated into a timetable for devolution will need to be planned for appropriately.

Strategic Alliance

The Commissioner and Chief Constables across three force areas: Nottinghamshire, Leicestershire and Northamptonshire; have agreed to enter into a Strategic Alliance for all of the elements of the service that are not currently within a collaboration agreement.

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

The final business case for the Strategic Alliance is being prepared and will be available in March. There is much work from the financial view that needs to be done to support this and each Commissioner may need to finance their contribution in different ways (e.g. reserves/capital contributions/revenue contributions) the final plan will then require revised budgets to support this.

Funding Formula Review

As mentioned previously the current funding formula review has been delayed and will not be in place before April 2017. It would not be prudent to assume that the indicative grant allocations provided in the Autumn 2015 will reflect the revised funding allocations in 2017. In fact because of the error made there will probably be a significant change.

Nottinghamshire has not seen a full implementation of the current funding formula and has had over £10m per annum withheld from the calculated amount of grant due (equivalent to £100m over the 10 years it has been in place). The Commissioner will continue to make the case that no matter what the finally agreed formula calculates; that there needs to be a clearly defined period for transition to full implementation.

Ministry Of Justice Funding

At the time of writing the report we still awaiting confirmation of the allocation of funding for Victims for 2016-17. The Ministry is one of the smallest central Government departments and is having to deliver a 15% saving across all of its budget. In our budget we have assumed that the Victims budget will also be cut by 15%, but there is a risk that it could be higher in order to protect other parts of the Department.

Emergency Services Network

The Home Office has been working on the costs associated with the new network, but there still remains a lack of clarity as to what it will mean at an individual force area.

We do know that:

- This is a long term project planned over 16 years with total costs of £4.9bn and projected savings of £3.3bn.
- The Police service will pick up 75% of the costs for England and Wales.
- The core element will cost £80m in 2016-17. It is anticipated that Forces will pay this and claim back through specific grants.
- Local costs for data connection, devices, installation in vehicles and transition costs will fall on the force.
- Dual running of Airwave until the system is functional will result in continued Airwaves costs. It does not pay to be one of the last forces to see the new system implemented.

This is an uncalculated impact on our budgets in future years.

Capital Grant

Capital Grant allocations have not been provided to date. It is expected that the 40% reduction referred to in the provisional settlement announcement will be lower when finally settled.

Allocations of other Grants

The allocations of other grants are still being worked on:

- Transformation fund might not be a bidding process
- Fire Arms – a national board has been set up and is assessing threat and Risk before the start of the financial year.
- Counter Terrorism allocations are being pressed for.

Expenditure

Traditionally expenditure budgets are incrementally changed from the previous year's net expenditure to allow for inflation and savings. During 2013-14 the Commissioner had an independent review of the base budget undertaken. This review identified some areas where further efficiencies might be delivered and provided assurance on the areas that the force was already reviewing. During 2015 this review has been revisited and further recommendations have been made. If the settlement had been as estimated we would have had to see a significant reduction in staff and officers in order to balance the budget.

The expenditure requirements of the Force and the Office of the Police & Crime Commissioner are continuously reviewed and monitored to ensure value for money. The role and responsibility of the Commissioner is to set a balanced budget assured that the force has robust systems in place for producing a full budget.

During 2015-16 it became apparent that the force was not going to deliver a balanced budget and there would be a need for significant additional use of reserves at year end. At the time of writing this report further work was being undertaken to reduce the deficit in year, but the need for reserves to meet the budget gap is currently estimated at £9.3m.

Officers, staff and PCSO's account for almost 80% of budgeted net expenditure and as such are a major asset for the organisation. The pace at which police officers, PCSO's and staff leave the organisation can fluctuate year on year, but this is budgeted for.

There has also been a recruitment freeze in place since the summer of 2015. The revenue budget report details the assumptions made for budgeting purposes.

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

Total Net Expenditure requirements are provided below:

Expenditure Summary	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
Previous year net expenditure	193.8	191.2	190.2	188.9	186.4
Net changes for pressures	8.4	11.0	3.3	2.8	3.0
Net expenditure requirement	**202.2**	**202.2**	**193.5**	**191.7**	**189.4**

Summary

In conclusion there are robust plans in place to deliver savings both locally and regionally.

There is still work to do to achieve the required savings plans through to 2020, but the work started on transformation should enable balanced budgets to be set.

There is still a lack of clarity in relation to future budgets and the amount that would be top sliced before allocation to the individual forces. The amount of top slicing has been increasing significantly over recent years and between 2015-16 and 2016-17 is increasing from £159.6m to £218.4m.

The budgeted summary financial position is as detailed below:

	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
Policing element					
Net Expenditure	197.7	197.6	188.9	187.1	184.8
Savings efficiencies & reserves	(10.9)	(12.0)	(3.9)	(4.5)	(4.8)
sub-total	**186.8**	**185.6**	**185.0**	**182.6**	**180.0**
Grants and Commissioning					
Net Expenditure	4.5	4.6	4.6	4.6	4.6
Savings efficiencies & reserves	(0.1)				
sub-total	**4.4**	**4.6**	**4.6**	**4.6**	**4.6**
Total net expenditure	**191.2**	**190.2**	**189.6**	**187.2**	**184.6**
Grants	136.5	135.8	133.1	130.4	127.8
Precept	52.4	54.4	55.8	57.2	58.6
Collection Fund Surplus		1.0			
Total Financing	**189.6**	**191.2**	**188.9**	**187.6**	**186.4**
Contribution (from)/to Reserves incl above	(9.3)*	1.0			
Further (savings) required			0.7	(0.4)	(1.8)

* The original budget for 2015-16 assumed a contribution from reserves of £1.6m. During the year the pressures have built and errors in budgeting identified. At the time of writing this report it is estimated that there will need to be a £9.3m contribution from reserves to balance to the budget. It could be slightly higher than this with an element being repaid in April 2016.

The Grants and Commissioning budget has now been increased by £219,000, being the transfer of service from the Force budget to the Commissioning budget for MARAC, SARC and Prevent.

Opinion

The Commissioner is of the view that achieving the levels of efficiencies shown above will be challenging. It is planned that there will be monthly monitoring of performance against these targets. Any slippage in the achievement can no longer be met from reserves and new in year savings will be required in order to balance the budget. There are insufficient levels of reserves available to smooth budget shortfalls in year.

Where reserves are used it is expected that these would be repaid over the medium term. The Medium Term Financial Plan assumes repayment for the use of reserves to date will begin with £3m in 2018-19 and 2019-20.

Nottinghamshire
POLICE & CRIME COMMISSIONER

Reserves Strategy 2016-17

February 2016

Reserves Strategy 2016-17

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 & 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 & 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/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 Plan (MTFP). The Comprehensive Spending Review (CSR) has provided the Commissioner with details of proposed revenue grant for one year and capital grant settlement has yet to be announced. This provides limited ability to focus on the levels of reserves and application of balances and reserves.

7. CIPFA and the Local Authority Accounting Panel do not accept that there is a case for introducing a generally acceptable minimum level of reserves. Commissioners on the advice of their Chief Finance Officers should make their own judgements on such matters taking into account all relevant local circumstances. Such circumstances will vary between local policing areas. A well-managed organisation, for example, with a prudent approach to budgeting should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. In assessing the appropriate level of reserves, a well-managed organisation will ensure that the reserves are not only adequate, but also are necessary.

8. Section 26 of the Local Government Act 2003 gives Ministers in England and Wales a general power to set a minimum level of reserves for authorities. However, the government has undertaken to apply this only to individual authorities in the circumstances where the authority does not act prudently, disregards the advice of its Chief Finance Officer and is heading for serious financial difficulty. This would also apply to Police & Crime Commissioners. This accords with CIPFA's view that a generally applicable minimum level is appropriate, as a minimum level of reserve will be imposed where an authority is not following best financial practice.

Current Financial Climate

9. The pressures on public finances are currently forecast as improving. However, at the local level reducing expenditure to an affordable base whilst maintaining service at an acceptable level remains a challenge. Therefore, the ability to retain reserves for unforeseen events and circumstances becomes not only difficult, but something that requires careful consideration.

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

11. Nottinghamshire currently has the third lowest level of reserves for policing in England and Wales. Nottinghamshire has never been cash rich with in excess of £10m per annum being withheld in the funding formula floors mechanism.

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

Types of Reserve

13. When reviewing the medium term financial plans and preparing the annual budgets the Commissioner should consider the establishment and maintenance of reserves. These can be held for four main purposes:
    - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves.
    - A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves.
    - A means of building up funds often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately, but remain legally part of the general reserve.
    - The economic climate and the safety of the Commissioner's financial assets. This would link closely with the Treasury Management and Prudential Code Strategy.

14. The Commissioner also holds other reserves that arise out of the interaction of legislation and proper accounting practice. These reserves are not resource-backed and cannot be used for any other purpose, are described below:

- The Pensions Reserve – this is a specific accounting mechanism used to reconcile the payments made for the year to various statutory pension schemes.

- The Revaluation Reserve – this is a reserve that records unrealised gains in the value of fixed assets. The reserve increases when assets are revalued upwards, and decreases as assets are depreciated or revalued downwards or disposed of.

- The Capital Adjustment Account – this is a specific accounting mechanism used to reconcile the different rates at which assets are depreciated under proper accounting practice and are financed through the capital controls system.

- The Available-for-Sale Financial Instruments Reserve – this is a reserve that records unrealised revaluation gains arising from holding available-for-sale investments, plus any unrealised losses that have not arisen from impairment of the assets.

- 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.

- 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.

- 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 came into being with the implementation of IFRS and represents the value of outstanding annual leave and time off in lieu as at 31st March each year.

15. Other such reserves may be created in future where developments in local authority accounting result in timing differences between the recognition of income and expenditure under proper accounting practice and under statute or regulation, such as the Capital Grants Unapplied.

16. In addition the Commissioner will hold a Capital Receipts Reserve. This reserve holds the proceeds from the sale of assets, and can only be used for capital purposes in accordance with the regulations.

17. For each earmarked reserve held by the Commissioner there should be a clear protocol setting out:
    - The reason for/purpose of the reserve
    - How and when the reserve can be used
    - Procedures for the reserves management and control
    - A process and timescale for review of the reserve to ensure continuing relevance and adequacy

18. When establishing reserves, The Commissioner needs to ensure compliance with the Code of Practice on Local Authority Accounting and in particular the need to distinguish between reserves and provisions.

Nottinghamshire Police & Crime Commissioner's Reserves

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

The General Reserve

20. It has previously been established that General Reserves will be maintained at a level above the minimum of 2.0% of the total net budget.

21. The purpose of this reserve is to provide for any unexpected expenditure that cannot be managed within existing budgets. Such expenditure would be one-off and resulting from an extraordinary event.

22. Similarly the General Reserve should be set at a prudent and not excessive level, as holding high level of reserves can impact on resources and performance. As such the maximum level of General Reserves is 5.0% of the total net budget.

23. Authorisation to finance such expenditure must be obtained in advance from the Commissioners Chief Finance Officer, in accordance with the scheme of delegation and the protocol between the Chief Constable and the Chief Finance Officer. Where time permits the request should be supported by a business case.

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

25. **Appendix A** details the elements that make up the current General Reserves balance and the levels of risk attached to each of these elements. These are indicative and may not be exhaustive as new risks emerge. This does not include the Jointly Controlled Operations general reserve of £0.075m.

Earmarked Reserves

26. Unlike General Reserves earmarked reserves have been identified for specific areas of expenditure where there are anticipated costs that can only be estimated. It is therefore prudent for the Commissioner to identify such areas of expenditure and set aside amounts that limit future risk exposure (e.g. balancing budget shortfalls in the MTFP).

27. Such expenditure usually arises out of changes in policy or where the organisation is working in collaboration with other forces to provide a specific service (for example Private Finance Initiative (PFI)).

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

29. **Appendix B** details for each of the earmarked reserves that existed at the start of the 2015-16 financial year and their estimated balance by 31st March 2016.

Details of those available for use in 2016-17 are given below:

Medium Term Financial Plan (MTFP) Reserve

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

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

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

33. The use of this reserve has been reviewed following the Comprehensive Spending Review and it now be utilised to finance the cost of organisational changes and as an investment to facilitate new savings. In addition to this the reserve will also be utilised smooth budget pressures as they arise. Any costs associated with A19 will also be met from this reserve.

34. The Precept and Budget Reports that will be approved in February 2016 show an estimated need of £9.3m from reserves to balance the budget in 2015-16 including the agreed use of reserves of £1.6m. It is agreed that the MTFP reserve would meet the additional expenditure pressures in 2015-16. This puts the organisation at serious financial risk.

35. In addition to this there will be a slight timing difference in relation to the Voluntary Redundancy Scheme currently in place. Some payments will need to be made in March 2015 which should be financed from the savings that will be generated. The savings themselves will not be realised until the new financial year. It has been agreed that reserves will meet the cost of these redundancies and pension strains in this financial year. The equivalent value of savings generated in 2016-17 will be transferred back to reserves in April.

36. All reserves will be utilised with the agreement of the Police & Crime Commissioner in the ways identified in this strategy and supported by a detailed business case.

37. It is expected that the use of reserves will be paid back over the medium term, although until now this has proved difficult to achieve. Plans have estimated that payback of reserves will commence in 2018-19 at £3m per annum.

38. The Medium Term Financial Plan has a risk assessment in relation to achieving the efficiencies identified. As such this reserve may be used for balancing the accounts should the efficiencies not be realised.

39. **Appendix C** shows how the remainder of this reserve has been initially allocated over the next four years. It should be noted that there is a potential shortfall between budget and funds available in 2017-18, 2018-19 and 2019-20, depending on the level of further savings that can be achieved. No estimate has been included at this stage.

Private Finance Initiative (PFI) Reserve

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

PCC Reserve

41. Initially, this reserve (PCC Transition) was set up as a prudent measure to cover the costs known and unknown associated with the transition from Police Authority governance to governance by the Police & Crime Commissioner. The costs were kept to a minimum and totalled £54k.

42. Subsequently, this reserve was used for Stage 2 transition costs. These amounted to £41k.

43. This reserve has now been earmarked for any cost associated with the PCC election in 2016 and any costs arising from Devolution over the next 4 years.

Grants & Commissioning Reserve

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

Drug Fund

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

Jointly Controlled Operations (Regional Collaboration) Reserve

46. 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.

47. 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.

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

Property Act Fund Reserve

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

Animal Welfare Reserve

50. 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

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

52. 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.

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

Revenue Grants

54. This reserve combines the small amounts of grant income on completed projects where the grant conditions do not require repayment. Cumulatively they create a sizeable reserve. The use of this reserve will be subject to evaluation of any risk of repayment and the submission of a business case.

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

VAT Reserve

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

Joint Operations Capital Reserve

57. The region currently maintains a capital reserve of £0.249m. This cannot be used for revenue purposes.

Procedure for Use of Reserves

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

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

61. On occasion where an urgent request is being made this should comply with the protocol between the Chief Constable and the Chief Finance Officer to the Commissioner.

Monitoring

62. The level of Reserves is kept under continuous review. The Commissioner receives reports on the levels of reserves as part of the Medium Term Financial Plan updates together with the Annual strategy in January and the out-turn position in June each 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:

    - Current Employment Tribunals relating to A19.
    - The budget monitoring report highlights potential risks in being able to achieve the required efficiencies and savings during 2015-16. This may need to be supplemented by the use of reserves to smooth budget pressure.
    - The ability to seek financial assistance from the Home Office for major incidents has been diminished and can no longer be relied upon.

- The need to finance organisational change and redundancies will have an impact on the use of reserves, although this is also reducing in value and risk.
- The ability to recover significant overspends by divisions and departments would be very difficult in the current financial climate.
- The instability of the Financial Markets means that the investments we make with balances are currently exposed to greater risk. This is negated by the Treasury Management Strategy, but returns on investment have reduced significantly.
- There remains a gap in funding for the next 3 years and potentially beyond this.
- Should the Commissioner and Force be faced with two or more of the above issues at the same time then the reserves may be needed in full.
- Once utilised there is very little opportunity for reimbursing the level of reserves through precept due to referendum limits or grant, due to the impact it would have operationally.

CFO Opinion

It is my opinion that the current level of reserves are not excessive especially when compared with the averages level of reserves held within all local authorities and within the police and crime sector. In fact, the need to use significant reserves in 2015-16 is a significant concern and this strategy now requires repayment of reserves from 2018-19 onwards.

The CLG has published local authority data on levels of reserves as part of the LA Revenue Expenditure and Financing England series. This is shown below and compared with Police & Crime Reserves and Nottinghamshire Police & Crime Reserves.

Type	Highest		NOPCC 2016-17
General Reserves	Met 6%	Average all types of LA 5%	3.7%
Earmarked Reserves	Average all types of LA 16%	Shire OPCC 11%	4.1%

Until recently small levels of overspend were smoothed through the use of reserves to finance them. But this is not sustainable and the force will need to work hard to deliver against the programme of efficiencies.

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

STRATEGY REVIEW

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

During the year changes may occur in the MTFP, 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
2015-16

GENERAL RESERVE

RISK	IMPACT	PROBABILITY	Min £m	Max £m	Proposed for 2015-16 £m
Major Incident(s) Unbudgeted expenditure	Any amount under 1% of net budget is to be funded by the authority. Amounts over 1% of net budget are subject to Home Office application approval	Single Incident amounting to less than 1% of net budget. **Medium** Multiple incidents amounting to over 1% of net budget. **Medium** Single incident amounting to over 1% of net budget. **Low**	2.1	4.2	4.2
Major Disaster (e.g. natural)	Operation policing affected and resources diverted. (e.g. through building being inaccessible and disaster recovery plan being auctioned)	**LOW**	0.5	1.0	0.5
Partnership Support	Funding for posts and PCSO's withdrawn. This has also been risk assessed as part of the budget assumptions.	**Medium to HIGH**	0.5	4.6	1.2
Counterparty failure	If invested balances were tied up in a process to recovery there would be an immediate impact on the revenue budget (possibly short term).	**LOW**	0.5	5.0	0.5
Employment Tribunals and other litigation	Direct impact on revenue budgets	**LOW** (A19 will be met from the MTFP Reserve)	0.1	0.5	0.1
Insurance	Emerging Risks and late reported claims	To date no claims of this type have affected the accounts. **Low to MEDIUM**	0.3	0.7	0.5
TOTAL					**7.0**

Appendix B

Earmarked Reserves Assessment

RISK/RESERVE	PURPOSE	HOW AND WHEN IT WILL BE USED	Management and control	Review	Estimated Balance at 31.03.16 £m
Medium Term Financial Plan (MTFP)	To provide against financial shortfalls identified within the MTFP	Smoothing peaks and troughs in financing the MTFP	Chief Finance Officer & Commissioner	Minimum twice annually	2.000
PCC Reserve	To cover cost associated with PCC transition and Stage 2 transition	During the year cost will be charged to a separate cost centre and will be charged to the reserve at year end.	Chie Finance Officer	On-going	0.487
Grants & Commissioning	To collate small balances within revenue accounts to provide funding for this growing area of work.	To meet specific requirements relating to Grants and Commissioning.	Chief Finance Officer	On-going	1.022
PFI reserve	To fund PFI related expenditure	Life cycle equalisation	Chief Finance Officer	Annually	0.330
JCO – Jointly Controlled Operations	To provide for unexpected expenditure relating to regional collaboration.	Decisions relating to the use of this fund follow the regional governance arrangements.	EM meeting of the PCC's.	Annually	1.277

Property Act Fund	Income from the sale of property act confiscations	To be determined by the Police & Crime Commissioner	PCC and CFO	Annually	0.123
Drug Fund	For use in reducing drug related crime	To be determined by the Police & Crime Commissioner	PCC and CFO	Annually	0.071
Revenue Grants	Balances on grants not required to be repaid	To be determined by the Police & Crime Commissioner	PCC and CFO	Annually	2.286
Animal Welfare	To set up a scheme for animal welfare on retirement as working animals	Scheme to be established in 2013-14	Set up November 2012.	During the year	0.019
Tax Base	To iron out fluctuations caused between estimated and actual tax base data. Also to assist with risk relating to the removal of redistributed business rates in future years.	Annually to balance the budget. Every 3-4 years to finance Single Person Discount Review	Chief Finance Officer	Annually	0.230
VAT	For a potential VAT liability now passed	Will be returned to the MTFP Reserve.	Chief Finance Officer	Annually	0.036
TOTAL					**7.881**

Appendix C (i)

Tables to show the use of General Reserves

	2016-17			2017-18			2018-19			2019-20		
	01.04.16 balance £m	Use in year £m	01.04.17 balance £m	01.04.17 balance £m	Use in year £m	01.04.18 balance £m	01.04.18 balance £m	Use in year £m	01.04.19 balance £m	01.04.19 balance £m	Use in year £m	01.04.20 balance £m
General Reserve	**7.000**	**0**	**7.000**	**7.000**	**0**	**7.000**	**7.000**	**0**	**7.000**	**7.000**	**0**	**7.000**
EMSOU general reserve	0.075		0.074	0.074		0.074	0.074		0.074	0.074		0.074
% of net budget	*3.7%*			*3.7%*			*3.7%*			*3.8%*		

Tables to show the estimated use of Earmarked Reserves

	2016-17			2017-18			2018-19			2019-20		
Earmarked Reserves	01.04.16 balance £m	Use in year £m	31.03.17 balance £m	01.04.17 balance £m	Use in year £m	31.03.18 balance £m	01.04.18 balance £m	Use in year £m	31.03.19 balance £m	01.04.19 balance £m	Use in year £m	31.03.20 balance £m
MTFP	2.000	(3.500)	(1.500)	(1.500)		(1.500)	(1.500)	3.000** (0.003)	1.497	1.497	3.000**	4.497
PCC Reserve	0.487	(0.100)	0.387	0.387		0.387	0.387		0.387	0.387		0.387
Grants & Commissioning	1.022		1.022	1.022		1.022	1.022		1.022	1.022		1.022
PFI	0.330	0.036	0.366	0.366	0.036	0.402	0.402	0.036	0.438	0.438	0.036	0.474
JCO	1.277		1.277	1.277		1.277	1.277		1.277	1.277		1.277
Property Act Fund	0.123	0.028	0.151	0.151		0.151	0.151		0.151	0.151		0.151
Drug Fund	0.071	0.010	0.081	0.081		0.081	0.081		0.081	0.081		0.081
Revenue Grants	2.286		2.286	2.286		2.286	2.286		2.286	2.286		2.286
Animal welfare	0.019	(0.001)	0.018	0.018	(0.001)	0.017	0.017	0.003	0.020	0.020	(0.001)	0.019
Tax Base	0.230	1.025	1.255	1.255		1.255	1.255		1.255	1.255		1.255
VAT	0.036		0.036	0.036		0.036	0.036		0.036	0.036		0.036
TOTAL	**7.881**	**(2.502)**	**5.379**	**5.379**	**0.035**	**5.414**	**5.414**	**3.036**	**8.450**	**8.450**	**3.035**	**11.485**

'* Assumes payment will be met from remaining earmarked reserves until repayment is made.

'** Assumes repayment of reserves

The above estimates show the MTFP reserve potentially being negative. This means that the other reserves will need to be utilised to meet the shortfall.

Nottinghamshire

POLICE & CRIME COMMISSIONER

4 Year Capital Programme 2016-2020

January 2016

1. Introduction

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

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

There is however, recognition that better purchasing power and consistency of capital purchases can be achieved through regional collaboration. Over the past few years this is one area that has developed. This has been supported by the Home Office with capital and revenue funding being made available through the Innovation Fund.

Strategic Alliance

In December 2015 the Commissioner's and Chief Constables of 3 regional forces agreed to create a Strategic Alliance. An initial business case outlined the potential operations and financial benefits that would arise from Alliance.

A final business case will detail the costs and benefits, with greater clarity on how each Commissioner will meet its required level of investment. Initial consideration of this is that Nottinghamshire would potentially prefer to make the majority of its contribution (42%) of the total investment from capital, but this will also depend on what preferences Leicestershire and Northamptonshire have.

The Capital Programme provided for 2016-17, whilst more detailed than the following years, is subject to change once the final business case is known and priority is given to the Strategic Alliance.

The costs of the Strategic Alliance have not been included in the programme attached.

2. Capital Programme 2016-17

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 £4million slippage from 2015-16 capital programme into 2016-17. The total programme in April will need to be prioritised against the need to finance the Strategic Alliance.

The proposed programme for 2016-17 is provided in Appendix A.

3. 4 Year Capital Programme

It is normal practice to provide an indication of the capital programme for 2016-18 to 2019-20. With the understanding that this part of the programme will be subject to change following a detailed business case and affordability assessment.

Because the final Business Case for the Strategic Alliance will be the priority, departmental heads have only been asked to identify what they considers to be a priority in 2017-18. The assumption is that 100% of the capital programme in 2018-19 and 2019-20 will be prioritised to the Alliance Programme.

However, in the supporting Treasury Management Strategy it has been assumed that £4m per annum will be needed for capital purposes and that this will probably be for IT or short-life assets.

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

4. Financing

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

Capital grant has been reduced by 40% between 2015-16 and 2016-17 and it is estimated that this will be phased out completely over the next few years.

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

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

External borrowing is taken at the best time to take advantage of low interest rates and based upon advice of our Treasury Management advisors. It is currently anticipated that rates will increase in the Winter of 2016. This is included in the Treasury Management Strategy, which is provided as a separate report on today's agenda.

5. Revenue Implications

Capital Expenditure does have revenue implications; generally these have the greatest impact in the year after the capital expenditure has been incurred. These costs reflect a depreciation cost and a cost of borrowing. Currently, the cost of borrowing is interest only, but at some point in the future the capital sum will need to be repaid. Depreciation is allocated over the life of the asset.

The Revenue budget for 2016-17 includes the estimated Minimum Revenue Pensions (MRP) based on expenditure prior to 1st April 2016, including an estimated cost of borrowing for existing borrowing and new borrowing planned in 2016-17.

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

Capital 4 Year Plan

2016-17 to 2019-20	2016/17 Proposed Budget	2017/18 Proposed Budget	2018/19 Proposed Budget	2019/20 Proposed Budget	Total Project Cost (inc prior years)
	£000	**£000**	**£000**	**£000**	**£000**
Estates Projects					
Automatic Gates/Barriers - various	200				200
Bridewell Refurbishment	500	3,500			4,000
Building Management replacement system	370				370
Bulwell Refurbishment	150				150
Bunkered Fuel Tank Works	225				225
Carlton - East Mids Ambulance Service Community Station	100				100
Custody Improvements	25	25			825
Digital Investigation Unit (DIU)/Cyber	180				180
Eastwood Police Station Replacement	870				878
FHQ Kennels	431				449
Lift replacement - Mansfield & Radford Road	55				66
Mansfield - Create open plan space	800				800
Newark - create open plan space	600				600
Oxclose Lane Refurbishment	400				400
West Bridgford 1st floor refurbishment	290				290
	5,196	3,525			9,533

2016-17 to 2019-20	2016/17 Proposed Budget	2017/18 Proposed Budget	2018/19 Proposed Budget	2019/20 Proposed Budget	Total Project Cost (inc prior years)
	£000	**£000**	**£000**	**£000**	**£000**
IS Projects					
Integrated Command & Control System (ICCS) Replacement	500				500
Improvements to Digital Investigation Storage	200				200
Mobile Data Remote Working	350				361
Network Infrastructure Improvements	350				350
Regional Agile Working	350				350
Regional ANPR	99				99
Regional LAN Desk Merger development	258				258
Ring of Steel ANPR Cameras	210				210
Sharepoint Portal		50			50
Storage Solutions	100				100
	2,417	50			2,478

2016-17 to 2019-20	2016/17 Revised Budget	2017/18 Revised Budget	2018/19 Proposed Budget	2019/20 Proposed Budget	Total Project Cost (inc prior years)
	£000	**£000**	**£000**	**£000**	**£000**
Other Projects					
Artemis Fleet Management					65
Bassetlaw/Broxtowe ANPR provision	25				25
Chief Officer Team vehicles	30				92
Firearms Cabinets & Access Storage	50				50
Northern Property Store Increased Storage	300				300
	405	0			532
Potential Programme in future years subject to BC			**4,000**	**4,000**	**8,000**
Total Programme	8,018	3,575	4,000	4,000	20,543

The Nottinghamshire Office of the Police & Crime Commissioner

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2016-2017

Contents

1. INTRODUCTION

1.1 Background

The Nottinghamshire Office of the Police and Crime Commissioner (The Commissioner's Office) is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Police and Crime Commissioner's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Commissioner's capital plans. These capital plans provide a guide to borrowing need, and longer term cash flow planning to ensure that the The Commissioner's Office can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans. If advantageous debt previously borrowed may be restructured to meet The Commissioner's Office risk or cost objectives.

The responsible officer for treasury management is Chief Finance Officer to the Police & Crime Commissioner (CFO).

CIPFA defines treasury management as:

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

1.2 Reporting requirements

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

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

- the capital plans, prudential indicators and borrowing plans.
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time).

- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators.
- an investment strategy (the parameters for managing investments)

A mid-year treasury management report – This will update the Commissioner with the capital position regarding capital, and amend prudential indicators as necessary. It also monitors whether the treasury activity is meeting the strategy and whether any policies require revision.
An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The responsibility for scrutiny lies with the Commissioner supported by the Audit and Scrutiny Panel. The above reports are reviewed at the Strategic Resources and Performance meetings of the Commissioner.

1.3 Treasury Management Strategy for 2016-17

The strategy covers two main areas:

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

Treasury management issues
- the current treasury position.
- treasury indicators which limit the treasury risk and activities of the The Commissioner's Office.
- prospects for interest rates.
- the borrowing strategy.
- policy on borrowing in advance of need.
- debt rescheduling.
- the investment strategy.
- creditworthiness policy.
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance

1.4 Training

The CIPFA Code requires that the responsible officer ensures that relevant personnel receive adequate training in treasury management. This especially applies to the Commissioner who is responsible for scrutiny. Training for the Commissioner was delivered in March 2014 and the Chief financial Officer to the Commissioner (CFO) has attended relevant seminars during the year.The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

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

The The Commissioner's Office recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The CFO will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2. THE CAPITAL PRUDENTIAL INDICATORS 2015-16 – 2018-19

The Commissioner's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, to give an overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Commissioner's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

The Commissioner is asked to approve the capital expenditure forecasts, excluding other long term liabilities, such as Private Finance Initiatives (PFI) and leasing arrangements, which already include borrowing instruments.

The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a net financing need.

Capital Expenditure £m	2014-15 Actual	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate
Capital Programme	10.464	11.636	12.018	3.575	4.000	4.000
Financed by:						
Capital receipts	-1.552	-1.369	-2.149	-3.054	0.000	0.000
Capital grants	-1.767	-1.448	-0.869	-0.521	0.000	0.000
Capital contributions	-2.033	-1.300	0.000	0.000	0.000	0.000
Internal resources	0.000	0.000	0.000	0.000	0.000	0.000
Net financing need	**5.112**	**7.519**	**9.000**	**0.000**	**4.000**	**4.000**

2.2 The Commissioners borrowing need (Capital Financing Requirement)

The second prudential indicator is the Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure, which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge, which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes and finance leases). Whilst these increase the CFR, and therefore the borrowing requirement, these types of scheme include a borrowing facility and so the Commissioner is not required to separately borrow for these schemes.

The Commissioner is asked to approve the CFR projections below:

£m	2014-15 Actual	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate
Capital Financing Requirement						
Total CFR	52.717	58.095	64.261	60.899	61.578	61.298
Movement in CFR	-	**5.378**	**6.166**	**-3.362**	**0.680**	**-0.280**

Movement in CFR represented by						
£m	**2014-15 Actual**	**2015-16 Estimate**	**2016-17 Estimate**	**2017-18 Estimate**	**2018-19 Estimate**	**2019-20 Estimate**
Net financing need for the year (above)	-	7.519	9.000	0	4.000	4.000
Less MRP/VRP and other financing movements	-	-2.141	-2.834	--3.362	-3.320	-4.280
Movement in CFR	-	**5.378**	**6.166**	**-3.362**	**0.680**	**-0.280**

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

2.3 Minimum Revenue Provision (MRP) policy statement

The The Commissioner's Office is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP). Additional voluntary payments are also allowed. (voluntary revenue provision - VRP).

Communities and Local Government regulations have been issued which require the Commissioner to approve an MRP Statement in advance of each year. A variety of options are available to the Commissioner, as long as there is a prudent provision.

The Commissioner is recommended to approve the following MRP Statement:

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

Repayments included in annual PFI or finance leases are applied as MRP.

2.4 Core funds and expected investment balances

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

	2014-15 Actual	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate
Fund balances / reserves	23.247	14.956	11.429	11.464	14.500	17.535
Capital receipts	1.369	2.149	3.054	0.000	0.000	0.000
Provisions	2.463	2.463	2.463	2.463	2.463	2.463
Other	-3.754	-4.155	-4.155	-4.155	-4.155	-4.155
Total core funds	**23.325**	**15.413**	**12.791**	**9.772**	**12.808**	**15.843**
Working capital*	**-0.872**	**-4.410**	**-5.510**	**-3.337**	**-10.037**	**-17.300**
(Under)/over borrowing	**-10.124**	**-7.003**	**-3.281**	**-2.435**	**1.229**	**5.457**
Expected investments	**12.329**	**4.000**	**4.000**	**4.000**	**4.000**	**4.000**

*Working capital balances shown are estimated year end; these may be higher mid -year

2.5 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Commissioners overall finances.

The Commissioner is requested to approve the following indicators:

2.6 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2014-15 Actual	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate
Ratio	1.9	1.8	2.4	2.8	2.8	3.5

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

2.7 Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with a reasonable assessment of forthcoming capital proposals, compared to the Commissioners existing approved commitments and current plans. The assumptions are based on current plans, but will invariably include some estimates, such as the level of Government support, which is not published over a three year period.

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

£	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate
Ratio	0.97	2.83	3.82	4.28	5.03

3. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity. The treasury management function ensures that the Commissioners cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

£m	2014-15 Actual	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate
External Debt						
Debt at 1 April	31.689	39.732	48.231	58.119	55.603	59.946
New Borrowing	12.000	17.068	13.908	1.659	5.677	5.178
Borrowing repaid	-3.957	-8.569	-4.020	-4.175	-1.334	-1.230
Movement in borrowing	8.043	8.499	9.888	-2.516	4.343	3.948
Debt as at 31 March	**39.732**	**48.231**	**58.119**	**55.603**	**59.946**	**63.894**
Capital Financing Requirement	52.717	58.095	64.261	60.899	61.578	61.298
Other long-term liabilities (OLTL)	-2.861	-2.861	-2.861	-2.861	-2.861	-2.861
Underlying Borrowing Need	49.856	55.234	61.400	58.038	58.717	58.437
Under / (over) borrowing	**10.124**	**7.003**	**3.281**	**2.435**	**-1.229**	**-5.457**
Investments						
Investments	12.329	4.000	4.000	4.000	4.000	4.000
Change in Investments	-3.273	-8.329	0.000	0.000	0.000	0.000
Net Debt	**27.403**	**44.231**	**54.119**	**51.603**	**55.946**	**59.894**

3.2 Current portfolio position

The Commissioners treasury portfolio position at March 2016, with forward projections is summarised below. The table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

Operational boundary £m	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate
Total	65.000	70.000	70.000	70.000	75.000

Within the prudential indicators there are a number of key indicators to ensure that activities operate within well defined limits. One of these is that the Commissioner needs to ensure that its gross debt does not (except in the short term), exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015-2016 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The CFO reports that this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.3 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR.

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

The Commissioner is requested to approve the following authorised limit:

Authorised limit £m	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate
Total	75.000	80.000	80.000	80.000	85.000

3.4 Prospects for interest rates and economic background

The Commissioner's Office has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Commissioner to formulate a view on interest rates. The table below gives Capita's view (November 2015).

	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
01 December 2015	0.5	2.0	3.3	3.3
01 March 2016	0.8	2.6	4.0	4.0
01 June 2016	1.0	2.8	4.2	4.2
01 September 2016	1.0	2.9	4.3	4.3
01 December 2016	1.3	3.0	4.4	4.4
01 March 2017	1.3	3.2	4.5	4.5
01 June 2017	1.5	3.3	4.6	4.6
01 September 2017	1.8	3.4	4.7	4.7
01 December 2017	1.8	3.5	4.7	4.7
01 March 2018	2.0	3.6	4.8	4.8

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country. The 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to still be positive. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years. This is influenced by strong consumer demand buoyed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015 this year. Investment expenditure is also expected to support growth. However, worldwide economic statistics have distinctly weakened and the forecast was tempered by concerns for the potential impact on the UK.

The Inflation Report was notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. However, once the falls in oil, gas and food prices over recent months fall out of the 12 month calculation of CPI, there will be a sharp increase from the current zero rate to around 1 percent in the second half of 2016. There is considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

The American economy made a strongly improved after a weak first quarter's growth at +0.6% (annualised), to 3.9% in quarter 2 of 2015. It weakened again to 2.1% in quarter 3. The negative news in late August and in September about Chinese and Japanese growth and the knock on impact on emerging countries that are major commodity suppliers was the main reason for the Fed's decision at its September meeting to postpone a rate increase. However, the nonfarm payrolls figure for growth in employment in October was very strong and, together with a perception that global concerns have subsided, and this led to an increase of 0.25% in December.

In the Eurozone, the ECB announced in January 2015 a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016.This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) and +0.4% (+1.5% y/y) in quarter 2 and +0.3% in quarter 3. However, the recent negative Asian results have raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Government to EU demands. The surprise general election in September gave the encumbeent Syriza government a mandate to stay in power to implement austerity measures. There remains major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been volatile during 2015 as alternating bouts of good and bad financial data have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully monitored to avoid incurring higher borrowing costs in later times to finance new capital expenditure and/or to refinance maturing debt. Balanced

against this is the cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

Treasury Management limits on activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance.
The indicators are:
Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
Upper limits on fixed interest rate exposure. This gives a maximum limit on fixed interest rates;
Maturity structure of borrowing. These gross limits are sets a limit to reduce the exposure to large fixed rate sums falling due for refinancing, for both upper and lower limits.

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

£m	2016-17	2017-18	2018-19	2019-20
Interest rate exposures				
	Upper	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%	100%
Limits on variable interest rates based on net debt	100%	100%	100%	100%
Limits on fixed interest rates:				
• **Debt only**	100%	100%	100%	100%
• **Investments only**	100%	100%	100%	100%
Limits on variable interest rates				
• **Debt only**	50%	50%	50%	50%
• **Investments only**	100%	100%	100%	100%

Maturity structure of fixed interest rate borrowing 2016-2017		
	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%

3.5 Policy on borrowing in advance of need

The Commissioner's Office will not borrow more than, or in advance of its needs purely in order to profit from the investment of extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the security of such funds is considered.

Borrowing in advance will be made within the following constraints:

- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period; and
- Would not look to borrow more than 18 months in advance of need.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. All rescheduling will be reported to the Commissioner at the earliest opportunity.

3.7 Municipal Bond Agency

It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to Local Authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Commissioner intends to make use of this new source of borrowing as and when appropriate.

4. ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy

The Commissioners investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Commissioners investment priorities will be security first, liquidity second and then return.

In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the The Commissioner's Office has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using our ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

In keeping with the agencies' new methodologies, the rating element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor's, this has been a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

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

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. Thus providing security of investment and minimisation of risk.

4.2 Creditworthiness policy

The primary principle governing the Commissioner's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, The Commissioner will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the prudential indicators covering the maximum principal sums invested.
-

The CFO will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the Commissioner for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as 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 minimum rating criteria has applied the lowest common denominator method of selecting counterparties and applying limits. This meant that the application of the Commissioners minimum criteria would apply to the lowest available rating for any institution. It is considered that by applying the highest available criteria would not significantly increase risk but may widen the pool of available counter parties. Credit rating information is supplied by Capita Asset Services our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Commissioner criteria will be suspended from use, with all others being reviewed in light of market conditions. As the banking sector has stabilised a slight relaxation of the counterparty criteria is proposed. This will still give quality counterparties while increasing the opportunities to invest. Where a change is proposed the existing criteria is shown in brackets.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Commissioner will only use banks which:
  - i. are UK banks; and/or
  - ii. and have as a minimum the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
    - i. Short term – F1
    - ii. Long term – A-

- Banks 2 – Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
- Banks 3 – The Commissioners own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Bank subsidiary and treasury operation -. The Commissioner will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

The above are limited to £5m for up to 3 months under current market conditions. Where the financial markets start to make an improvement the duration of the investment can be increased with the CFO's prior approval, under delegated powers, to no more than 12 months.

Where the Bank is A rated (long term) this is limited to £3m (previously £2m) for up to 100 days.

- Building societies will be used if it meets the ratings for banks outlined above.
- Money market funds with instant access – Limited to £7m in any one MMF, with delegated authority for the CFO to approve temporary increase to £10m.
- Enhanced money market funds with up to 7 day notice access - Limited to £3m in any one MMF, with delegated Authority for the CFO to approve temporary increase to £5m.
- UK Government (including gilts and the DMADF) - up to a limit of £10m up to 12 months.
- Local authorities, parish councils, other Police & Crime Commissioners etc - Limited to £5m with each for up to 2 years. The CFO under delegated authority can extend either the duration or the financial limit in specific cases.

Country and sector considerations - Due care will be taken to consider the country, group and sector exposure of the Commissioners investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 above. In addition:

- no more than 25%/£5m will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

Use of additional information other than credit ratings. Additional requirements under the Code require the Commissioner to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to all investments. The time and monetary limits for institutions on the Commissioners counterparty list are as follows .

	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 (£2m)	100 days
Banks 2 – part nationalised	N/A	£5m	1yr
Banks 3 category – Commissioners banker (not meeting Banks 1)	AA	£5m	1 day
UK Govt - DMADF	AAA	Unlimited	6 months
Local authorities	N/A	£5m	2 yr
Enhanced money market funds with instant access	AAA	£5-10m	liquid
Enhanced money market funds with notice	AAA	£3-5m	liquid

The Commissioner is requested to approve changes to the counterparty criteria as follows:

- ***To use the highest available rating instead of the lowest common denominator.***
- ***To increase the value of investments in A- banks from £2 million to £3 million***

4.3 Country Limits

The Commissioner has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of *AA-* from Fitch. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Approved countries for investments -

Based on lowest available rating

AAA	AA	A	AA-
Australia Canada Denmark Germany Luxembourg Norway Singapore Sweden Switzerland	Finland Hong Kong Netherlands U.K. U.S.A.	Abu Dhabi (UAE) France Qatar	Belgium Saudi Arabia

4.4 Investment Strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2016-2017 1.00%
- 2017-2018 1.75%
- 2018-2019 2.00%

There are downward and upward risks to these forecasts but overall the main risk is that increases in Bank Rate occurs later.

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

- 2016-2017 0.90%
- 2017-2018 1.50%
- 2018-2019 2.00%
- 2019-2020 2.25%
- 2020-2021 2.50%
- 2021-2022 3.00%
- 2022-2023 3.00%
- Later years 3.00%

Because of the risk of interest rates not rising as quickly as indicated a lower rate will be used in the budgets.

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

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

Maximum principal sums invested > 364 days				
£m	**2015-16**	**2016-2017**	**2017-2018**	**2018-2019**
Principal sums invested > 364 days	5.000	5.000	5.000	5.000

For its cash flow generated balances, the The Commissioner's Office will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

4.5 Investment Risk Benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

Security - The Commissioners maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.06% historic risk of default when compared to the whole portfolio.

Liquidity – in respect of this area the Commissioner seeks to maintain:

- Bank overdraft - £0.5m maximum
- Liquid short term deposits of at least £2.0m available on instant access.
- Weighted average life benchmark is expected to be 1 month, with a maximum of 6 months.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate

4.6 End of year investment report

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

5. THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer is the Chief Financial Officer to the Commissioner. (CFO) is responsible for the following:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service providers.