# Office of the Durham Police & Crime Commissioner

**24 January 2013**

**Revenue Outturn 2012/13**
**Revenue Budget 2013/14**
**Capital Budgets 2012/13 and 2013/14**
**Medium Term Financial Plan 2012/13 to 2016/17**

**Joint Report of Treasurer and Chief Constable**

## Introduction

1. The purpose of this report is to enable the Police and Crime Commissioner (PCC) to:
    a. Consider the estimated revenue outturn for 2012/13,
    b. Set the revenue budget for 2013/14,
    c. Approve the revised capital budget for 2012/13 and the capital budget for 2013/14,
    d. Approve the medium term financial plan.

### Background

2. The provisional financial settlement for 2013/14 has been slightly less detrimental than expected due to the payment of the 2011/12 Council Tax Grant by the Department for Communities and Local Government however, savings in the region of £1.3million are still required to balance the budget. Details of these savings are outlined in the Savings 2013/14 (paragraphs 16 to 22).
3. The Medium Term Financial Plan in Appendix 3 shares a picture of our estimates for future years. Setting a budget for the financial year 2014/15 will be a tough challenge given a revenue gap in the region of £4.5million. Provisional financial settlement figures are not yet available for 2014/15 from the Treasury and until those indications are available our best guess is a 4% income reduction from central government.
4. Whilst recognising the impact of any increase in Council Tax on the finances of households in County Durham and Darlington, in view of the future budgetary challenges referred to above, it is the view of officers that it is more important than ever, so far as is possible, to protect the base budget by increasing the Council Tax. In this context, it should be noted that Council Tax freeze grant, which is on offer for the third consecutive year, does not provide that protection and in the years after these grants cease to be paid by Government, further permanent reductions to the base budget, equivalent to the level of grant received, need to be made to balance the budget. Our Council Tax was some 8.2% below the national average for non-Metropolitan Police Authorities prior to accepting Council Tax freeze grant in 2011/12 and 2012/13. Council Tax freeze grant in the last two financial years amounted to approximately £1.5m, but this

has significantly damaged our budget base and we have fallen further behind the national average referred to above.

5. As you are aware, a consultation exercise was undertaken in December/January involving an on line survey together with meetings held with the public in Darlington and Durham seeking views about, amongst other things, potential precept increases in 2013/14. The results showed an overall 62% support for an increase of 2% and a 34% support for a 3% increase, rather than taking the Council Tax freeze grant on offer. The debate at these public events focused upon the benefits and dis-benefits of a permanent increase of £0.48m to the budget base which would result from a 2% increase in Council Tax, as compared with taking the Council Tax freeze grant of £0.297m for the next two years only.

## Outturn 2012/13

6. The estimated outturn for the financial year 2012/13 is included in the Medium Term Financial Plan in Appendix 3.

7. **It is recommended that the Treasurer is authorised to make any proper accounting transactions that would be in the interests of the PCC in relation to the 2012/13 accounts.**

## Budget 2013/14

### Local Authority Finance Settlement

8. The final Local Government Finance Settlement, together with the Police Grant Report for 2013/14, will be agreed by the House of Commons in January or February 2013. It is anticipated that this final settlement will mirror the provisional settlement which was issued on 19th December 2012. Central funding for 2013/14 has been set at £88.626m, a decrease of £1.421m (1.6%) compared with the 2012/13 figures. The next table shows the anticipated fall in central government funding in future years as follows:

| | **2012/13 £000** | **2013/14 £000** | **2014/15 £000** | **2015/16 £000** | **2016/17 £000** |
|---|---|---|---|---|---|
| Police Grant | 44,266 | 47,300 | 45,408 | 44,500 | 43,610 |
| Neighbourhood Policing | 3,335 | Merged into Police Grant | | | |
| Damping Grant Reduction | | | | -1,000 | -2,000 |
| DCLG General Grant | 41,639 | 40,598 | 39,381 | 38,594 | 37,823 |
| 2011/12 Council Tax Grant | | 728 | | | |
| Revenue Support Grant | 807 | Merged into DCLG General Grant | | | |
| **Central Gov't Funding** | **90,047** | **88,626** | **84,789** | **82,094** | **79,433** |
| **Reduction in Funding** | | **1,421** | **3,837** | **2,695** | **2,661** |
| Counter Terrorism Grant | 750 | 750 | 750 | 750 | 750 |

9. The Neighbourhood Policing Fund has been rolled into the Home Office Police Grant from 2013/14.

10. Funding for the 2011/12 Council Tax freeze will be paid to policing bodies by DCLG at the same level in 2013/14 as in 2011/12 and 2012/13, which is £727,984 for Durham. The freeze grant of £877,280 for 2012/13 was for one year only and the necessary budget savings to balance this gap are reflected in the Chief Constable's savings proposals.

11. The Police and Crime Commissioner (PCC) will be eligible for a council tax freeze grant in 2013/14 equivalent to a 1% increase in the local precept if the PCC does not increase the basic amount of Council Tax in 2013/14. The indicative special grant allocation should the PCC set the basic amount of Council Tax for 2013/14 at a level which is no more than the 2012/13 level is £296,803.

12. The Localism Act 2011 includes provisions to give residents the power to instigate local referendums to veto excessive Council Tax increases. The Government has provisionally determined that local authorities will be required to seek the approval of their local electorate if, compared with 2012/13, they set Council Tax increases that exceed:

    a. 2% for most principal authorities,

    b. 2% for the City of London,

    c. 2% for the Greater London Authority, police authorities and single purpose fire and rescue authorities,

    d. £5 for the nine police force areas in the bottom quartile, in respect of the current level of Council Tax levied. Durham is not in this category.

13. The Localised Council Tax Support Funding for PCCs in England is a separate grant paid to policing bodies by the DCLG. That figure for Durham is expected to be £5,365,330. This has been the subject of previous reports to the Police Authority. As well as general grant, there will continue to be a special Counter Terrorism Grant of £750,000 in 2013/14.

14. Every 1% variation in the Band D Council Tax affects the Council Tax Requirement by £0.24m. Any increase in Council Tax compared with 2011/12 would not attract the one year Council Tax freeze grant of £0.297m which is on offer. As referred to in paragraph 4 above, a 2% increase in Council Tax, which is the maximum increase that can be applied without a referendum, would result in an increase to the base budget of £0.48m for every year in the future. This would increase Band D from £153.41 to £156.48 per annum an increase of £3.07 per annum which is a little under 6p per week. The impact on the majority of households in County Durham and Darlington which are Band A properties, would be an increase of £2.05 from £102.27 to £104.32 per annum, which is equivalent to a little under 4p per week.

15. The Provisional Settlement also reflects significant change in the way in which the vast majority of drugs, crime and community safety funding is distributed. Home Office funding to a range of partners will cease at the end of this financial year and instead PCCs will receive funding from a transitional and not ring-fenced Community Safety Fund. The Government have indicated that it has allocated this funding 'according to the current allocation of those funding streams that are ending'. Unfortunately, Government has not published baseline figures or a list of the grants that this funding replaces and consequently it is

difficult to comment firstly on whether the allocations are at an appropriate level and secondly on whether or not all CSF streams have been captured by the Government's aggregation and calculations. What we do know from the control totals is that nationally, Community Safety funding has broadly reduced by 25%. The control total for CSF in the 2013/14 settlement for Durham amounts to £0.77m and from the preliminary work carried out by the Police Authority's Transition Board to identify those bodies/initiatives likely to be affected by these changes, the 25% national reduction in CSF funding would appear to have been applied to our local funding. The PCC has already indicated that in this first year, it would be his intention to operate on a 'business as usual' basis, pass-porting back, so far as is possible, 'new monies' received in respect of CSF initiatives. On that basis, CSF has been reflected as having a net nil impact on the 2013/14 budget and the remainder of the Medium Term Financial Plan period.

**Savings 2013/14**

16. A medium term financial plan was formally presented to the PCC on 26th November 2012 and this indicated the projected revenue and capital expenditure positions for the next four years. It indicated a financial gap of £1,337,000 for 2013/14. A range of initial savings options were outlined in that report and indications of further ongoing work that would contribute to balancing the budget were discussed.

17. The most recent Medium Term Financial Plan (Appendix 3) indicates that a gap of £1,303,000 would need to be bridged in order to establish a balanced budget for 2013/14.

18. The total estimated savings in the table below have been calculated to take effect from various dates during the coming financial year. There are several benefits to this:

    a. It protects the front line and also helps to maintain performance by taking a measured approach to delivering savings.
    b. It gives the Force time to plan ahead so as to avoid trying to deliver savings by the 1st April thereby mitigating any unintended consequences;
    c. It means that the full year saving of the above will be greater than that shown in the table which will help with the 2014/15 budget setting process;
    d. It means that the Force can plan the above savings to match officer retirements and as such represents a basic workforce plan for the coming year;
    e. It gives the Force a cushion to afford a degree of revenue growth to meet emerging issues.

19. The Medium Term Financial Plan shows that in 2013/14 there is a need to save £1.3m. It is intended that the savings in the table below are implemented in order to exceed the required target so as to give the Force a degree of flexibility in the coming year. Given the level of uncertainty in future years in relation to government grant this is considered prudent. Significant discussion has been held within the Force to ensure the below savings are deliverable and do not adversely impact existing performance.

| Neighbourhoods | £000 | Mitigation / comment |
|---|---|---|
| Workforce modernise 6 police officer posts in Partnerships by converting them to police staff posts | 75 | No significant impact expected. |
| Work Force Modernise 5 police constable crime reduction officers by converting them to police staff scale 3 posts plus allowances. | 80 | Officers spend the majority of their time on crime prevention work, therefore no significant impact upon service delivery |
| **Sub total** | **155** | |
| **Response** | **£000** | |
| Removal of vacant police staff post in dog section. | 35 | Post currently vacant |
| Review of non-staffing budgets with dog section | 20 | No significant impact expected |
| Redeployment of 2 police staff posts in dog section. | 45 | The two staff concerned have now been redeployed therefore posts currently vacant. |
| Removal of 1 police officer dog handler | 55 | Work to be absorbed by other police officers. |
| Work force modernisation within Comms of 20 police officerposts, replaced by 30 police staff for added resilience. | 30 | Additional staff needed to provide additional flexibility due to loss of police numbers, and also to respond to additional workload. |
| Deletion of 5 vacant police officer posts in Joint specialist operations unit with Cleveland | 250 | No significant impact expected on service as posts are already vacant. |
| **Sub total** | **435** | |
| **Crime and Justice** | **£000** | |
| CTO/CAR review £29 k full year saving, but £12k after allowing for salary protection. Loss of 2 police staff posts | 10 | Review agreed and now being implemented. |
| Forensics – standby allowance | 10 | No significant impact expected |
| Area Forensic Manager – rest day rota/shifts/public holiday working | 15 | No significant impact expected |
| Move for 7 to 4 crime scene managers | 5 | No significant impact expected |
| Replace 4 Crime Scene Investigators police staff posts, with 4 Volume CSI police staff posts | 8 | No significant impact expected |
| Reduce Consumables budget in fingerprints section | 2 | General budget reduction. |
| Deletion of vacant police staff posts across the Command. Loss of 7 FTEs | 145 | No significant impact expected |
| 5 police officer posts to be modernised ion 2013/14 and replace with 5 police staff posts | 70 | No significant impact expected |
| Workforce modernise 1 sgt post in criminal justice team and replace with SO1 police staff post | 15 | To be complete in July 2013 |
| Workforce modernise 4 posts (2 Darlington, 2 Bishop Auckland) in | 50 | No significant impact expected |

| | | |
|---|---|---|
| Prisoner Handling Teams and replace with 4 police staff posts | | |
| Reduce forensic and medical contracts | 50 | This will form part of on-going discussion with the service provider. |
| Reduce contributions to Safeguarding Boards | 10 | No significant impact expected and will require discussion with partners |
| **Sub total** | **390** | |
| **Tasking & Coordinating** | **£000** | |
| Review of intelligence function with the loss of 3 Inspectors, 4 constables (1 of which is in the CAB) and the creation of 5 sergeant posts | 50 | Review of rank structure, to maintain service delivery and save money. Net loss of 2 officer posts |
| Lose 1 DCI post | 50 | Part year saving |
| Workforce modernise 4 Police Constable posts in Intelligence and replace with 4 police staff posts | 25 | Part year saving |
| Workforce modernise in Resourcing Unit of 1 Sgt and 2 Police Constable posts and replace with 3 police staff posts | 50 | Part year saving |
| **Sub total** | **175** | |
| **Support Command** | **£000** | |
| General procurement savings across the Force (£150k already identified and included in medium term financial plan ) | 30 | No significant impact expected |
| Reduction in catering at Meadowfield PSU | 20 | No impact expected |
| IT Savings to computer network | 30 | No impact expected |
| Deletion of vacant training post | 30 | No significant impact expected |
| Work Force modernisation of 4 police officer training posts and replace with 4 police staff posts | 50 | No impact on service delivery expected |
| **Sub total** | **160** | |
| **PCC budget** | **100** | |
| **Total** | **1,415** | |

20. Overall, the impact of the above will be a phased reduction over the next 12 months of 60 police officers from 1370 to 1310. The majority of this will come from back and mid office functions and will not impact upon neighbourhood policing nor will it impact upon PCSO numbers. In relation to police staff, there will be an increase of 46 posts due to the impact of workforce modernisation whereby police officers posts are replaced by police staff posts at a lower cost. There will be a need to undergo an appropriate recruitment exercise in the coming weeks.

21. **It is recommended that the savings proposals are agreed to enable a balanced budget be approved for 2013/14 and the subsequent setting of the precept.**

**2013/14 Council Tax Requirement**

22. The *'council tax bases'* of Durham County Council and Darlington Borough Council are used to calculate the proportion of the PCC's total precept levied on each Council. The tax base is the estimated full year equivalent number of chargeable Band D dwellings with two or more liable adults and in respect of which tax will be received. The *'council tax bases'* for 2013/14, determined by the relevant authorities and notified to the Police and Crime Commissioner, are as follows:

| ***Council*** | ***Notified Council Tax Base*** |
|---|---|
| Durham County | 128,205.00 |
| Darlington | 29,678.47 |
| Aggregate Council Tax Base | 157,883.47 |

23. The Basic Council Tax for the Office of the Police and Crime Commissioner (OPCC) is calculated by dividing the precept by the aggregate of tax base.

$$\frac{\text{Council Tax Requirement}}{\text{Aggregate Council Tax Base}} = \begin{array}{c}\text{Basic Council Tax}\\ \text{(At Band D)}\end{array}$$

24. A budget of £118,696,646 would result in a 2% increase in Band D Council Tax.

| | **£** | **£** |
|---|---|---|
| ***PCC's Budget Requirement (based on an increase in Basic Council Tax of 2%)*** | | 118,696,646 |
| ***Less:*** | | |
| Specific Grant | 47,299,689 | |
| Re-distributed Non-Domestic Rates | 40,598,038 | |
| Council Tax Grant (2011/12) | 727,984 | |
| Council Tax Support Grant | 5,365,330 | |
| | | 93,991,041 |
| | | 24,705,605 |
| ***Add:*** | | |
| Estimated overall net deficit on Collection | | |
| Funds at 31st March 2012 | | - |
| ***Council Tax Requirement*** | | **24,705,605** |

**This would mean a council tax of:**

$$\frac{\pounds 24{,}705{,}605}{157{,}883.47} = \pounds 156.48$$

25. **It is recommended that the Council Tax Requirement be set at a level that results in an 2% increase in Band D Council for the year ending 31st March 2014 and**

    a. That in determining the Council Tax Requirement, the Authority notes the Treasurer's report on the robustness of the estimates and the adequacy of reserves and risks in the budget.

    b. The *'council tax base'* for the whole of the force area of County Durham and Darlington will be **157,786.21.**

    c. The 'basic amount of council tax' be £156.48 and the amount of council tax for each category of dwelling be as follows:

| Valuation Band | (Proportion of Basic Amount) | Council Tax 2013/14 |
|---|---|---|
| | | £ |
| A | (6/9) | 104.32 |
| B | (7/9) | 121.71 |
| C | (8/9) | 139.09 |
| D | (*'basic amount'*) | 156.48 |
| E | (11/9) | 191.25 |
| F | (13/9) | 226.02 |
| G | (15/9) | 260.79 |
| H | (18/9) | 312.96 |

    d. The Budget Requirement be **£118,696,646** and that (after taking account of Police Specific Grant of £47,299,689, Re-distributed Non-Domestic Rates of £40,598,038, Council Tax Grant (2011/12) of £727,984 and Council Tax Support Grant of £5,365,330 precepts totalling **£24,705,605** be issued to Authorities as follows:

| Council | Council Tax Base | Precept (£) |
|---|---|---|
| Durham County | **128,205.00** | **20,061,518** |
| Darlington | **29,678.47** | **4,644,087** |
| | **157,883.47** | **24,705,605** |

26. Precept Instalments: Discussions with the Treasurers of the Collecting Authorities have taken place, and the dates for the payment of the precept in ten equal instalments are as follows:

(a) **Durham County Council**

- 4 April 2013
- 4 May 2013
- 4 June 2013
- 4 July 2013
- 6 August 2013
- 6 September 2013
- 8 October 2013
- 8 November 2013
- 10 December 2013
- 11 January 2014

(b) **Darlington Borough Council**

- 20 April 2013
- 28 May 2013
- 4 July 2013
- 8 August 2013
- 13 September 2013
- 18 October 2013
- 22 November 2013
- 31 December 2013
- 5 February 2014
- 12 March 2014

**Level of Financial Reserves**

27. To ensure ongoing financial viability it is important that the Police & Crime Commissioner continues to maintain a suitable level of reserves. Whilst there is no general guidance on what represents a suitable level of reserves in percentage terms, it is important to take into account the various risks to be faced when coming to a view on reserve levels. It is the view of both Chief Finance Officers (for the PCC and Chief Constable) that reserves should not be used to support the revenue budget given: the level of funding uncertainty in future years (where more grant reductions are expected but not yet outlined by Central Government); localisation of council tax benefit; rising inflation and council tax capping limits which are lower in 2013/14 than previous years.

28. The current policy statement on the level of reserves includes the following:

    a. The Police & Crime Commissioner will set aside sufficient sums in earmarked reserves as it considered prudent to do so. The Treasurer will be authorised to establish such reserves as are required, will review them for both adequacy and purpose, and report on a regular basis to the Police & Crime Commissioner.
    b. The Police & Crime Commissioner will aim to maintain, broadly, general reserves of between 4% and 5% of the revenue estimates currently about £4.739m and £5.924m respectively (based on 2013/14 revenue funding of £118.696m) subject to an annual review by the Treasurer as part of the budget process.

29. The following tables show the estimated movement in financial reserves over the period to 31st March 2014 assuming a 2% Council Tax increase for 2013/14. The

use of the earmarked reserve relates to the capital modernisation used to fund the estates programme.

| Financial Reserves | Balance at 31/3/12 | Variation 2012/13 | Estimated Balance 31/3/13 | Variation 2013/14 | Estimated Balance 31/3/14 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| General | 6,067 | - | 6,067 | - | 6,067 |
| Usable Capital Receipt | 25 | - | 25 | - | 25 |
| Earmarked | 11,267 | (493) | 10,774 | (3,070) | 7,704 |
| **Total Reserves** | **17,359** | **(493)** | **16,866** | **(3,070)** | **13,796** |

| | 31st March 2012 | 31st March 2013 | 31st March 2014 |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Capital Modernisation | 6,267 | 5,774 | 2,704 |
| Staff Pensions & Severance | 1,500 | 1,500 | 1,500 |
| Capital Grants Unapplied | 620 | 620 | 620 |
| Insurance | 574 | 574 | 574 |
| Police Officer Pensions | 676 | 676 | 676 |
| Investment in IT | 250 | 250 | 250 |
| Police Authority | 343 | 343 | 343 |
| Training | 150 | 150 | 150 |
| NEASU | 172 | 172 | 172 |
| Tactical Training Centre | 134 | 134 | 134 |
| Other | 581 | 581 | 581 |
| Usable Capital Receipt | 25 | 25 | 25 |
| General Reserve | 6,067 | 6,067 | 6,067 |
| **Total** | **17,359** | **16,866** | **13,796** |

**Key Risks**

30. The following key risks with associated mitigating action and responsible persons are included within the medium term financial plan:

    a. Loss of damping grant,

b. An ageing estate portfolio putting increased pressure on facilities management budgets,
c. Police officer capacity to respond to service demands,
d. Flexibility to move police resources to areas of need,
e. Crime does not continue to fall,
f. Police staff capacity to respond to service demands,
g. Much greater grant loss that envisaged,
h. Collaboration may require up-front costs of change,
i. Localisation of business rates,
j. Reduction in council tax benefits payments funding form central government to local government,
k. PCC precept freeze or small increase,
l. Reduction in Community Safety Funding impact on the Force Revenue Budget.

## Capital Budget 2013/14

### Prudential Code (including Treasury Management)

31. Under the Prudential Code for Capital Expenditure, the PCC is free to make borrowing decisions according to what is affordable. The proposed capital programme for new starts in 2013/14 totals £16.404m of which part could be met from revenue contributions. In order to reduce the impact on the 2013/14 budget, the Council Tax Requirement has been compiled on the assumption that borrowing will be used to finance the capital budget after taking account of capital grant and transfer from the Capital Modernisation Reserve. Technical recommendations relating to the Code are set out in Appendix 2.
32. The Prudential Code for Capital Finance in Local Authorities was introduced with effect from 1 April 2004. The key objectives of the Prudential Code are to ensure that within a clear framework the capital investment plans of the PCC are affordable, prudent and sustainable.
33. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. Details of the requirements of the Code are included in Appendix 2 and the recommended limits are detailed below for Members' consideration.
34. **It is recommended that the PCC considers prudential borrowing and treasury management arrangements outlined in Appendix 2 and affirms them as the basis on which such business will be conducted in 2013/14 in order to facilitate the major capital programme outlined in the Medium Term Financial Plan.**
35. **It is recommended that the PCC agrees the carry forward of underspends on the 2012/13 capital programme.**

**Considerations under the Prudential Code**

36. In considering the programme for capital investment, under the Prudential Code, the PCC is required to have regard to the following matters:

    a. Affordability, e.g. implications for Council Tax. The prudential indicators have been set assuming a Council Tax increase of 2% in 2013/14 and 2014/15.

    b. Prudence and sustainability, e.g. implications for external borrowing. The implication for external borrowing of the PCC's capital spending plans has been assessed as both prudent and sustainable in the long term.

    c. Value for money.

    d. Stewardship of assets.

    e. Service objectives, e.g. strategic planning for the PCC and the Force. The PCC has a medium term financial plan that is updated annually and that helps to ensure that both service and corporate objectives are taken account of as part of the budgetary process.

    f. Practicality, e.g. achievability of the forward plan. The current capital plan is deemed to be achievable.

    g. The revised capital budget for the years 2012/13 and the proposed capital expenditure for 2013/14 to 2016/17 are detailed in the table below.

| Asset Category | Estimate 2012/13 £'000 | Estimate 2013/14 £'000 | Estimate 2014/15 £'000 | Estimate 2015/16 £'000 | Estimate 2016/17 £'000 |
|---|---|---|---|---|---|
| **Expenditure** | | | | | |
| Buildings: New HQ | 3,300 | 11,250 | 2,500 | 0 | 0 |
| Buildings: Minor Works | 880 | 1,650 | 250 | 230 | 230 |
| Vehicles | 1,108 | 1,100 | 1,300 | 1,100 | 1,050 |
| ICT | 1,480 | 2,043 | 1,065 | 1,205 | 890 |
| Equipment | 532 | 256 | 171 | 244 | 151 |
| **Total** | **7,300** | **16,299** | **5,286** | **2,779** | **2,321** |
| **Funding** | | | | | |
| Capital Grant | 1,279 | 1,147 | 1,200 | 1,100 | 1,100 |
| Special Grant | 577 | 0 | 0 | 0 | 0 |
| Capital Receipts | 0 | 0 | 1,000 | 0 | 0 |
| Revenue Contribution | 0 | 0 | 0 | 0 | 0 |
| Strategic Reserve | 2,190 | 3,025 | 0 | 0 | 0 |
| Unsupported Borrowing | 3,255 | 12,127 | 3,086 | 1,679 | 1,221 |
| **Total** | **7,300** | **16,299** | **5,286** | **2,779** | **2,321** |
| **Capital Financing Costs** | | | | | |
| Minimum Revenue Provision | 1,534 | 1,091 | 1,024 | 941 | 1,218 |
| Contribution from Reserves | 2,145 | 3,070 | 0 | 0 | 0 |
| Interest Charges | 52 | 338 | 460 | 526 | 565 |

| Asset Category | Estimate 2012/13 £'000 | Estimate 2013/14 £'000 | Estimate 2014/15 £'000 | Estimate 2015/16 £'000 | Estimate 2016/17 £'000 |
|---|---|---|---|---|---|
| **Total** | **3,731** | **4,500** | **1,485** | **1,467** | **1,782** |

h. The capital budgets for 2014/15 onwards are provisional at this stage. The 2013/14 capital programme is considered to be both realistic and achievable.

## Medium Term Financial Plan 2012/13 to 2016/17

37. The PCC received details of the Medium Term Financial Plan at a formal meeting held on 26th November 2012. This has been updated and is attached as Appendix 3.

38. Council Tax increases are assumed at 2% for 2013/14 and beyond.

39. The Local Government Provisional Finance Settlement provides details of formula grant levels for 2013/14. No settlement figures are included for 2014/15 onwards.


### Acknowledgement

The preparation of this budget for the PCC has required a great deal of effort by many people. We would like to express our sincere thanks to Members of the former Police Authority, the Chief Constable’s staff and the Treasurer’s staff for their invaluable support and assistance.


**K Thompson**

Treasurer

**M Barton**

Chief Constable

## Appendix 1: Risks and Implications

### Finance

These are contained in the main body of the report.

### Staffing

The budgetary implications for staffing are dealt with in the saving proposals

### Equality and Diversity

N/A

### Accommodation

The capital budget has implications for the way in which accommodation will be delivered in the future.

### Crime and Disorder

N/A

### Human Rights

N/A

### Children's Act 2004

N/A

### Stakeholder/Community Engagement

A number of public consultation meetings were held to invite views on budget setting and the level of precept.

### Environment

N/A

### Collaboration

A full and developing programme of collaboration is in place to effectively manage the Authority’s reducing budget .The VFB Board will oversee VFM and productivity in relation to the delivery of the 2013/14 budget.

### Value for Money and Productivity

N/A

### Other risks

N/A


| | |
|---|---|
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**Appendix 2**

# PRUDENTIAL CODE

## Background

1. The framework of the prudential capital finance system, which came into effect from 1st April 2004, is contained in the Local Government Act 2003. Under the Act, Government borrowing controls based on “credit approvals” were abolished with effect from 1st April 2004. The PCC is now free to borrow and take out leases without Government consent, provided these commitments can be afforded. The Prudential Code is designed to guide the PCC’s decision on what ~~it~~ can be afforded. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 specifies the Prudential Code for Capital Finance in Local Authorities, issued by CIPFA, as the code of practice to which local authorities must have regard when setting and reviewing their affordable borrowing limit.

2. The key objectives of the Prudential Code are to ensure that within a clear framework the capital investment plans of the PCC are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.

3. To demonstrate that the above objectives have been fulfilled the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account. The Code does not include limits; these are for the PCC to set.

4. Previously, credit approvals from Central Government set the limit of a local authority’s long-term borrowing and attracted Revenue Support Grant (RSG) towards the financing costs of loans (interest and repayment of principal). Under the current system, unless, exceptionally, a national limit is imposed, the PCC is free to make his own borrowing decisions according to what can be afforded. Concerning borrowing up to 2010/11, Central Government support for borrowing through Formula Grant was given on the basis of a named amount of capital expenditure which borrowing will support. With effect from 2011/12 the Government determined that no new supported borrowing allocations would be made in the Spending Review period. Government support is now given in the form of capital grant only. The PCC will take the totality of Central Government support into account in setting ~~its~~ prudential limits.

## Prudential Indicators

5. The capital expenditure estimates to be incurred for the current and future years are outlined below:

| | **Estimate 2012/13 £'000** | **Estimate 2013/14 £'000** | **Estimate 2014/15 £'000** | **Estimate 2015/16 £'000** | **Estimate 2016/17 £'000** |
|---|---|---|---|---|---|
| Expenditure | 7,300 | 16,299 | 5,286 | 2,779 | 2,321 |

6. Estimates of the ratio of financing costs to net revenue stream for the current and future years are:

| Ratio of Financing Costs to Net Revenue Stream | Estimate 2012/13 | Estimate 2013/14 | Estimate 2014/15 | Estimate 2015/16 | Estimate 2016/17 |
|---|---|---|---|---|---|
| | % | % | % | % | % |
| | 3.21% | 3.79% | 1.29% | 1.30% | 1.61% |
| Financing Costs (£'000) | 3,731 | 4,500 | 1,485 | 1,467 | 1,782 |
| Net Revenue Stream (£'000) | 116,187 | 118,697 | 115,104 | 112,913 | 110,767 |

The indicator takes into account minimum revenue provision and any revenue contributions. The net revenue stream is the amount raised from local taxation and non-specific grant income.

7. Estimates of the current and future years Capital Financing Requirement are:

| Capital Financing Requirement | Estimate 2012/13 | Estimate 2013/14 | Estimate 2014/15 | Estimate 2015/16 | Estimate 2016/17 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| | 13,314 | 24,410 | 26,566 | 27,400 | 27,548 |

The Capital Financing Requirement measures the underlying need to borrow for a capital purpose. The PCC has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The PCC's treasury management strategy and annual plan for 2013/14 is part of this Section (see paragraph 21 onwards).

The PCC has at any point in time a number of cash flows both positive and negative, and manages the treasury position in terms of borrowings and investments in accordance with the approved treasury management strategy. In day-to-day cash management no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions and not simply those arising from capital spending. In contrast the Capital Financing Requirement reflects the PCC's underlying need to borrow for a capital purpose.

8. CIPFA's Prudential Code for Capital Finance includes the following as a key indicator of prudence:

*"In order to ensure that over the medium term net borrowing will only be for a capital purpose the PCC should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."*

**Minimum Revenue Provision (MRP) Statement**

9. Previously local authorities were required to set aside some of their revenue as provision for repayment of debt. MRP was calculated each year subject to a minimum of 4% of capital financing requirement at the start of the year.

10. These rules have been replaced with a duty for an authority to provide for an amount of MRP which is considered to be "prudent". CLG has issued guidance on MRP. The regulations do not define "prudent provision".

11. The guidance explains that the broad aim of prudent provision is to ensure that debt is repaid over a period that is reasonably close to the time over which the capital expenditure will provide benefits. In the case of borrowing supported by Government through the Formula Grant system, it would be reasonable to link the period of making provision of the grant, which is 4% of the estimated supported capital expenditure and 4% equates to the repayment of debt over 25 years.

12. MRP should normally start in the financial year following the one in which the expenditure was incurred.

13. The Secretary of State recommends that a Statement of Methodology to be used by authorities be approved by the PCC before the start of each financial year.

**14. It is recommended when determining the minimum revenue provision:**

**a. Option 2: CFR Method (MRP is equal to 4% of the non-housing capital finance requirement at the end of the preceding financial year) is used in relation to all capital expenditure before 1st April 2008, but only for capital expenditure financed by supported borrowing during 1st April 2008 to 31st March 2011.**

**b. Option 3: Asset Life Method (MRP is based on the life of the asset) is used for capital expenditure financed by unsupported borrowing after 1st April 2008.**

**External Debt**

15. In respect of external debt, it is recommended that the PCC approves the following Authorised Limits for total external debt, gross of investments, for the next three financial years. These limits separately identify borrowing from other long-term liabilities such as finance leases. The limits are consistent with the capital financing requirement.

| **Authorised Limits** | **Estimate 2012/13 £'m** | **Estimate 2013/14 £'m** | **Estimate 2014/15 £'m** | **Estimate 2015/16 £'m** | **Estimate 2016/17 £'m** |
|---|---|---|---|---|---|
| Borrowing | 13.3 | 24.4 | 26.6 | 27.4 | 27.5 |
| Long term Liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | 13.3 | 24.4 | 26.6 | 27.4 | 27.5 |

16. The Authorised Limits are consistent with the PCC's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with the approved Treasury Management policy statement and

practices. They are based on the estimate of most likely, prudent but not worst-case scenario, with the addition of sufficient headroom over and above this to allow for operational management. An assessment of risk has been taken into account, as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cash flow requirements.

17. The proposed Operational Boundary for external debt is based on the same estimates as the Authorised Limit but reflects directly the Treasurer's estimate of the most likely prudent but not worst case scenario, without the additional headroom included within the Authorised Limit. The Operational Boundary represents a key management tool for in year monitoring by the Treasurer. Within the Operational Boundary, figures for borrowing and other long-term liabilities are separately identified.

| **Operational Boundary for External Debt** | **Estimate 2012/13 £'m** | **Estimate 2013/14 £'m** | **Estimate 2014/15 £'m** | **Estimate 2015/16 £'m** | **Estimate 2016/17 £'m** |
|---|---|---|---|---|---|
| Borrowing | 10.3 | 21.4 | 23.6 | 24.4 | 24.5 |
| Long term Liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | 10.3 | 21.4 | 23.6 | 24.4 | 24.5 |

## Council Tax

18. The Prudential Indicators have been calculated assuming a 0% Council Tax increase during 2012/13, a 2% increase in 2013/14 and beyond.

19. The capital programme outlined in Appendix 3 is funded by a mix of capital grants, contributions from earmarked reserves and borrowing under the prudential code.

20. The estimate of the incremental impact of this prudential borrowing, over and above capital investment decisions that have previously been taken by the Authority for Band D Council Tax, are:

| **Incremental Impact on Band D Council Tax** | **Estimate 2012/13** | **Estimate 2013/14** | **Estimate 2014/15** |
|---|---|---|---|
| | **%** | **%** | **%** |
| | -0.12% | 0.31% | 0.18% |

## Treasury Management

21. The CIPFA Code of Practice for Treasury Management in the Public Services makes the following key recommendations:

(i) Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

(ii) Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities.

(iii) They should acknowledge that the pursuit of best value in treasury management and the use of suitable performance measures are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

22. The PCC has formally adopted the key recommendations of the CIPFA Code of Practice for Treasury Management in the Public Services and has created and maintains as the cornerstone for effective treasury management:

   **a.** A treasury management policy statement stating the policies and objectives of its treasury management activities. This is attached as Appendix 2(1).
   **b.** Suitable treasury management practices (TMPs), setting out the manner in which the PCC will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. These are attached as Appendix 2(2).

23. Reports will be presented to the PCC on the treasury management policies, practices and activities, including an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in the TMPs. The annual strategy for 2013/14 is shown in Appendix 2(3). In implementing this strategy the PCC will give priority to security and liquidity rather than yield. However the PCC will aim to achieve the highest rate of interest consistent with proper levels of security and liquidity. In particular attention is drawn to the key objectives of the Investment Strategy which is firstly safeguarding the repayment of principal and interest of its investments on time and secondly ensuring adequate liquidity. The investment return is the third objective. The PCC delegates responsibility for the execution and administration of its treasury management policies and practices to the Treasurer, who will act in accordance with the Policy Statement, Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management.

**Treasury Management Indicators**

24. The PCC has set an upper limit on its fixed interest rate exposures for 2012/13, 2013/14 and 2014/15 of 100% of its net outstanding principal sum.

25. The PCC has further set an upper limit on its variable interest rate exposures for 2012/13, 2013/14 and 2014/15 of 30% of its net outstanding principal sums.

26. The PCC's upper and lower limits for the maturity structure of its borrowings are as follows.

| Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate: | Upper Limit | Lower Limit |
|---|---|---|
| | % | % |

| Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate: | Upper Limit | Lower Limit |
|---|---|---|
| | % | % |
| Under 12 months | 100 | 0 |
| 12 months and within 24 months | 100 | 0 |
| 24 month and within 5 years | 100 | 0 |
| 5 years and within 10 years | 100 | 0 |
| 10 years and above | 100 | 0 |

There is currently no debt in 2012/13 and future debt will be related to expenditure on major new build activity. This means that these indicators need to be structured to give a degree of flexibility to borrow amounts for differing maturity periods depending on the interest rates at the time of borrowing.

27. The PCC does not intend to invest sums for periods longer than 364 days. This is seen as prudent interest rate risk management.

28. **It is recommended that the PCC:**
    a. **Notes the prudential indicators,**
    b. **Approves the Minimum Revenue Provision (MRP) Statement in Appendix 2 (paragraphs 9 to14) of this report,**
    c. **Determines an Authorised Limit of £24.4m and an Operational Boundary Limit of £21.4m for external debt in 2013/14.**
    d. **Reaffirms the adoption of the key recommendations of the CIPFA Code as detailed in paragraph 21 of this report.**
    e. **Sets an upper limit on the fixed interest rate exposures for 2012/13, 2013/14 and 2014/15 of 100% of the net outstanding principal sum.**
    f. **Sets an upper limit on the variable interest rate exposures for 2012/13, 2013/14 and 2014/15 of 100% of its net outstanding principal sums.**

## Appendix 2(1)

**Treasury Management Policy Statement**

1. The PCC defines the treasury management activities as:

   *"The management of the organisation's 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".*

2. The PCC regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

3. The PCC acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives and is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

**Appendix 2(2)**

**Treasury Management Practices**

## 1. TMP1 – Treasury Risk Management

*1.1. The Treasurer shall:*

- Design, implement and monitor all arrangements for the identification, management and control of the treasury management risks shown below;
- Report at least annually on the adequacy/suitability thereof; and
- Report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the PCC's objectives in this respect, all in accordance with the procedures set out in **TMP6** *Reporting requirements and management information arrangements.*

*1.2. Liquidity*

The PCC will ensure adequate but not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable at all times to have the level of funds available which are necessary for the achievement of service objectives.

*1.3. Interest Rates*

The PCC will manage exposure to fluctuations in interest rates with a view to containment of net interest costs, or securing interest revenues, in accordance with the amounts provided in the Revenue Estimates in accordance with **TMP6** *Reporting requirement and management information arrangement.*

*1.4. Credit and Counterparties*

The PCC regards a prime objective of the treasury management activities to be the security of the principal sums invested. A formal counterparty list will be maintained and the named organisations and limits will reflect a prudent attitude towards organisations with which funds may be deposited, and will limit the PCC's investment activities to the instruments, methods and techniques referred to in **TMP4** *Approved Instruments, methods and techniques*.

*1.5. Re-scheduling and Re-financing of Debt*

The PCC will ensure that all borrowing, private financing and partnership arrangements will be negotiated, structured and documented, and the maturity profile of debt will be managed with a view to obtaining terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

Relationships with counterparties in these transactions will be managed in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

*1.6. Legal and Regulatory*

The PCC will ensure that all treasury management activities comply with its statutory powers and regulatory requirements. The PCC will demonstrate such compliance, if required to do so, to all parties with whom he deals in such activities. In framing the credit and counterparty policy under **TMP1** *Treasury Risk Management,* the PCC will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions effected with the organisation, particularly with regard to duty of care and fees charged.

The PCC will seek to minimise the impact of future legislative or regulatory changes on treasury management activities so far as it is reasonably able to do so.

*1.7. Fraud, Error and Corruption, and Contingency Management*

The PCC will seek to ensure that the circumstances which may expose the PCC to the risk of loss through fraud, corruption or other eventualities in his treasury management dealings are identified. Accordingly, he will design and implement suitable systems and procedures and will maintain effective contingency management arrangements to counter such risks.

*1.8. Market Risk*

The PCC will seek to ensure that stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums invested.

## 2. TMP2 - BEST VALUE AND PERFORMANCE MEASUREMENT

2.1. The PCC will actively work to promote best value in treasury management activities. The treasury management function will be the subject of regular reviews to identify scope for improvement.

## 3. TMP3 - DECISION-MAKING AND ANALYSIS

3.1. The PCC will maintain full records of treasury management decisions, and of the processes and practices applied in reaching those decisions to demonstrate that reasonable steps have been taken to ensure that all issues relevant to those decisions were taken into account.

## 4. TMP4 - APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1. The PCC will undertake treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Strategy that is shown in Appendix 2(3).

## TMP5 - ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

4.2. The PCC's treasury management activities will be properly structured in a clear and open fashion and a rigorous discipline of segregation of duties will be enforced to ensure effective control and monitoring of treasury management activities for the reduction of the risk of fraud or error and for the pursuit of optimum performance.

4.3. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

4.4. If and when the PCC intends, as a result of lack of resources or other circumstances, to depart from these principles, the Treasurer will ensure that the reasons are properly reported in accordance with **TMP6** *Reporting requirements and management information arrangements,* and the implications properly considered and evaluated.

4.5. The Treasurer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover.

4.6. The Treasurer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

4.7. The Treasurer will fulfil all delegated responsibilities in respect of treasury management in accordance with the PCC's Treasury Management Policy Statement, Treasury Management Practices and the CIPFA Standard of Professional Practice on Treasury Management.

## 5. TMP6 - REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

5.1. Regular reports will be prepared for consideration by the PCC on:

- The implementation of the treasury management policies;
- The effects of decisions taken and the transactions executed in pursuit of those policies;
- The implications of changes resulting from regulatory, economic, market or other factors affecting treasury management activities; and the performance of the treasury management function.

5.2. As a minimum, the PCC will receive:

- an Annual Report on the strategy and plan to be pursued in the forthcoming year;
- An Annual Report on the performance of the treasury management functions in the previous year and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and Treasury Management Practices.

## 6. TMP7 - BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

6.1. The PCC will account for treasury management activities in accordance with appropriate accounting practices and standards and with statutory and regulatory requirements.

6.2. The PCC will ensure that his auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles and that such information and papers demonstrate compliance with external and internal policies and approved practices.

## 7. TMP8 - CASH AND CASH FLOW MANAGEMENT

*7.1.* All PCC monies shall be aggregated for treasury management purposes and will be under the control of the Treasurer. Cash flow projections will be prepared on a regular and timely basis and the Treasurer will ensure that these are adequate for the purposes of monitoring compliance with **TMP1.2** Liquidity.

## 8. TMP 9 - MONEY LAUNDERING

8.1. Procedures will be enforced for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this area is properly trained.

## 9. TMP 10 - STAFF TRAINING AND QUALIFICATIONS

9.1. The PCC will seek to appoint individuals to the treasury management function who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Treasurer will recommend and implement the necessary arrangements.

## 10. TMP 11 - USE OF EXTERNAL SERVICE PROVIDERS

10.1. When external service providers are employed by the PCC, the Treasurer will ensure that this is done for reasons which have been submitted to a full evaluation of the costs and benefits. The terms of their appointment and the methods by which service providers' value will be assessed will be properly agreed and documented, and subjected to regular review.

10.2. Where feasible and necessary, a spread of service providers will be used to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, PCC Procedural Rules and Financial Regulations plus legislative requirements will always be observed. The monitoring of such arrangements rests with the Treasurer.

## 11. TMP 12 - CORPORATE GOVERNANCE

11.1. The PCC is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

11.2. The PCC has adopted and implemented the key recommendations of the Code of Practice on Treasury Management in the Public Services. This, together with other arrangements that the Treasurer will put in place, is considered vital to the achievement of proper corporate governance in treasury management, and the Treasurer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

**Appendix 2(3)**

**Treasury Management Strategy 2013/14**

In implementing this strategy, the PCC will give priority to security and liquidity, rather than yield. However, the PCC will aim to achieve the highest rate of interest consistent with the proper levels of security and liquidity. In order to achieve this, the strategy deals with the use of specified investments, non-specified investments and the liquidity of investments.

The strategy also covers the PCC's approach to borrowing and the use of external managers.

## 1) Borrowing Strategy 2013/14 to 2014/15

The uncertainty over future interest rates increases the risks associated with treasury activity. As a result, the PCC will take a cautious approach to its treasury strategy.

Long-term fixed interest rates are at risk of being higher over the medium term, and short term rates are expected to rise, although more modestly. The Treasurer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short/medium term.

Continuing to postpone borrowing and running down investment balances will also be considered. This would reduce counterparty risk and hedge against the expected fall in investments returns.

## 2) Investment Strategy 2013/14 to 2014/15

### a) Key Objectives

i) The primary objectives of the PCC's investment strategy are firstly safeguarding the repayment of the principal and interest of investments on time and secondly ensuring adequate liquidity. The investment return is the third objective. With the current economic background the current investment climate has one over-riding risk consideration; that of counterparty security risk.

### b) Risk Benchmarking

i) Yield benchmarks are currently widely used to assess investment performance.

ii) These benchmarks are simple targets (not limits) and so 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 depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the mid year or Annual Report.

iii) Security: The PCC's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is 0.08% historic risk of default when compared to the whole portfolio.

iv) Liquidity: In respect of this area, the PCC seeks to maintain:

(1) Bank overdraft of £0.5m,
(2) Liquid short term deposits of at least £2.0m available with a week's notice,
(3) Weighted Average Life benchmark is expected to be 0.25 years (3 months), with a maximum of 0.5 years (6 months).

v) Yield: Local measure of yield benchmarks is:

(1) Investments - Internal returns above the 7 day London Interbank Bid Rate (LIBID)

**c) Investment Counterparty Selection Criteria**

i) The primary principle governing the PCC'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 PCC will ensure:

(1) Maintenance of a policy that covers both the categories of investment types to be invested 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.

(2) Sufficient liquidity in investments and for this purpose will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the PCC's prudential indicators covering the maximum principal sums invested.

ii) The Treasurer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the PCC for approval as necessary. These criteria are separate to those which choose Specified and Non-Specified investments, as they provide an overall pool of counterparties considered high quality that the PCC may use, as opposed to defining what the investments are.

iii) The rating criteria use the ***lowest common denominator*** method of selecting counterparties and applying limits. This means that the application of the PCC's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the PCC's criteria, the other does not, the institution will fall outside of the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

iv) Credit rating information is supplied by 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 counterparty at the minimum PCC criteria will be suspended from use, with all others being reviewed in light of market conditions.

**d) Specified Investments**

i) Specified Investments are defined as those satisfying the following conditions:
   (1) Denominated in sterling,
   (2) To be repaid or redeemed within 12 months of the date on which the investment was made,
   (3) Do not involve the acquisition of share capital or loan capital in any body corporate,
   (4) Are made with the UK Government, local authorities, parish councils, community councils, or with a body or in an investment scheme which has been awarded a high credit rating by a credit agency.

ii) The criteria for providing a pool of high quality investment counterparties are:

**(1) Banks 1 - Good Credit Quality**

The PCC will only use banks which:
(a) Are UK banks
(b) And have, as a minimum, the following Fitch, Moody's and Standard & Poors credit ratings (where rated):
   (i) Short Term – F1
   (ii) Long Term – A
   (iii) Individual / Financial Strength – C- (Fitch / Moody's only)
   (iv) Support – 3 (Fitch only)

**(2) Banks 2 - Guaranteed Banks with suitable Sovereign Support**

(a) In addition, the PCC will use banks whose ratings fall below the criteria specified above if all of the following conditions are met:
(b) Part nationalised UK banks-Lloyds Bank and the Royal bank of Scotland
(c) These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

**(3) Banks 3 - The PCC's 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.

**(4) Building Societies**

(a) The PCC will use all Societies which meet the ratings for banks outlined above.

(5) **Money Market Funds** – AAA

(6) **UK Government** (including gilts and the Debt Management Account Deposit Facility (DMADF))

(7) **Other Local Authorities, Parish Councils** etc.

**e) Non - Specified Investments**

i) Non-Specified investments are those not meeting the definition in the Specified Investments section above. It is proposed that during 2013/14, the PCC will not invest in Non-Specified Investments, including those to be repaid or redeemed more than 12 months from the date on which the investment was made.

**f) Use of additional information other than credit ratings**

i) Additional requirements under the Code of Practice now require the PCC 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.

**g) Time and Monetary Limits applying to Investments**

i) The time and monetary limits for institutions on the PCC's Counterparty List are as follows:

| | **Long term Rating)** | **Money Limit** | **Time Limit** |
|---|---|---|---|
| Banks 1 category high quality | AA | £5m | 1 year |
| Banks 1 category medium quality | A | £2m | 3 months |
| Banks 2 category-part nationalised | N/A | £5m | 1 year |
| Limit 3 category-Authority's banker (not meeting Banks 1) | A- | £2m | 3 months |
| DMADF | AAA | Unlimited | 6 months |
| Local Authorities | N/A | £5m | 1 year |
| Money market funds | AAA | £1m per fund | Liquid |

ii) Due to the uncertainty in the financial markets it is recommended that the Investment Strategy is approved on a similar approach to previous years which will provide officers with the flexibility to deal with any unexpected occurrences. Officers will restrict the pool of available counterparties from these criteria to safer instruments and institutions. Currently this involves the use of the DMADF, AAA rated Money Market Funds and institutions with higher credit ratings than those outlined in the investment strategy or which are provided support from the Government. Investments are being maintained short term to also improve the security of investments.

**h) Sensitivity to Interest Rate Movements**

i) Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified.

ii) The estimated impact of a 1% increase in interest rates to the estimated treasury management income for the PCC in 2013/14 is an increase of £120,000. A decrease in interest rates is unlikely and any impact would not be material.

**3) External Managers (Other than those relating to the Pension Fund)**

i) The PCC may, upon the recommendations of the Treasurer, appoint one or more external managers to manage the short-term investment of surplus PCC money. Any such managers appointed are to be bound by this Treasury Management Policy Statement.

**Appendix 3**

# Durham Police & Crime Commissioner
# Medium Term Financial Plan
# 2012/13 to 2016/17

## Introduction

The prevailing national financial climate has transformed the way in which we perceive the delivery of public services. The Policing Service now has an imperative to evidence value for money and deliver a consistently high level of services with shrinking financial resources.

This plan demonstrates in financial terms how the Police and Crime Commissioner (PCC) will strive to achieve his vision for policing in County Durham and Darlington. The plan provides an outline of the demands and consequential revenue resource requirements of the PCC and Constabulary for the five financial years commencing 1st April 2012. The plan also details the proposed five year capital programme and the revenue consequences of that programme.

Durham Constabulary has embraced a corporate scorecard approach called "Plan on a Page". This strategic financial plan has been compiled in a way which reflects those strategic intentions and has been developed alongside the local Policing Plan.

The plan is owned by both the PCC and Constabulary. Individual and collective responsibility is exercised over the management of performance and resources. Governance arrangements are in place to ensure that the PCC holds the Constabulary to account through regular reporting of issues. The robust working relationships that have been developed in recent years to strengthen this are currently being adapted to suit the landscape that accompanies the new era of the PCC. Within the Constabulary, internal accountability meetings are regularly held to ensure objectives are met.

## Purpose

The purpose of this financial planning document is to provide a basis for determining:

- The level of resources which are likely to be available in the future to deliver national and local priorities;
- The future demands upon the revenue budget;
- The impact of external factors;
- The financial implications of partnership working;
- The amount of capital investment which is required to achieve corporate objectives;
- The revenue consequences of such capital investment;
- The future reserve levels of the PCC;
- The impact of additional demands on the level of council tax levied by the Police & Crime Commissioner;

- The main financial risks facing the PCC and Constabulary.

## Strategic Planning Principles

In constructing its financial plans the PCC benefits from following the principles below:

- *Ensure that finance contributes to improved outcomes by ensuring finance follows priorities.*
- *To ensure overall financial stability.*
- *Set a comprehensive, timely, balanced and realistic budget;*
- *Take into account pay and price inflation, risk management, and achievability of savings targets;*
- *Follow its treasury management policy;*
- *Follow its reserves policy;*
- *Raise awareness of and communicate key financial messages both internally and externally;*

The medium term financial plan has been compiled following the established principles that have been adopted by the PCC and within the following further conditions:

- *Budgets set will be affordable and not jeopardise the financial stability of the PCC in either the short or long term;*
- *Precept increases will be kept to a minimum consistent with the provision of effective and efficient services;*
- *All spending plans will need to demonstrate that they can achieve value for money and support best value principles;*
- *Spending will be agreed only when the necessary funding is identified and approved;*
- *External funding will be sought wherever it can be used in a sustainable manner that does not lead to unforeseen costs to the PCC;*
- *The PCC's finances will be publicised to stakeholders in an open and transparent manner;*
- *Customers and citizens will be involved in the budget process.*

## Key Strategic Areas & Objectives

The approach to strategic planning is now shaped by the prevailing drive to demonstrate value for money in a time of reducing resources. The Constabulary has created a strategy map (Plan on a Page) based on a balanced scorecard approach. This has enabled colleagues across the Constabulary to understand how their activities link with and support delivery of the key outcomes required that will help to achieve the PCC and Constabulary's Vision.

The strategy map is structured into four key areas which enable the Constabulary to identify:

- What we need to be good at (Our Core Deliverables),
- What will help us to do it (Enabling Factors),
- How we will align our Resources,
- How we will deliver Value for Money.

Each key area describes a number of strategic objectives that informs where the PCC and Constabulary need to focus their attention and resources. The process collects each strategic objective and identifies key linkages ensuring alignment to the corporate vision. The strategic objectives supporting each key area are:

- What we need to be good at (Our Core Deliverables):
    - Protect Neighbourhoods,
    - Tackling Criminals,
    - Solving Problems,
- What will help us to do it (Enabling Factors):
    - Provide effective and efficient response,
    - Manage and use our knowledge,
    - Effective Internal Communication,
    - Working together with others,
    - Reinforce an “Aiming for Excellence Culture”,
- How we will align our Resources:
    - Our Staff,
    - Our Stuff,
    - Strategic Policing Requirement,
- Use of Resources:
    - Our Finance,
    - Continuous Improvement,

## Revenue Expenditure

### Police Service Funding

The final Local Government Finance Settlement, together with the Police Grant Report for 2013/14, will be agreed by the House of Commons in January or February 2013. It is anticipated that this final settlement will mirror the provisional settlement which was issued on 19th December 2012. Central funding for 2013/14 has been set at £88.626m, a decrease of £1.421m (1.6%) compared with the 2012/13 figures. The next table shows the anticipated fall in central government funding in future years as follows:

| | **2012/13 £000** | **2013/14 £000** | **2014/15 £000** | **2015/16 £000** | **2016/17 £000** |
|---|---|---|---|---|---|
| Police Grant | 44,266 | 47,300 | 45,408 | 44,500 | 43,610 |
| Neighbourhood Policing | 3,335 | Merged into Police Grant | | | |
| Damping Grant Reduction | | | | -1,000 | -2,000 |
| DCLG General Grant | 41,639 | 40,598 | 39,381 | 38,594 | 37,823 |
| 2011/12 Council Tax Grant | | 728 | | | |
| Revenue Support Grant | 807 | Merged into DCLG General Grant | | | |
| **Central Gov't Funding** | **90,047** | **88,626** | **84,789** | **82,094** | **79,433** |
| **Reduction in Funding** | | **1,421** | **3,837** | **2,695** | **2,661** |
| Counter Terrorism Grant | 750 | 750 | 750 | 750 | 750 |

The Neighbourhood Policing Fund has been rolled into the Home Office Police Grant from 2013/14.

Funding for the 2011/12 Council Tax freeze will be paid to policing bodies by DCLG at the same level in 2013/14 as in 2011/12 and 2012/13, which is £727,984 for Durham. The freeze grant of £877,280 for 2012/13 was for one year only and the necessary budget savings to balance this gap are reflected in the Chief Constable's savings proposals.

The Police and Crime Commissioner (PCC) will be eligible for a council tax freeze grant in 2013/14 equivalent to a 1% increase in the local precept if the PCC does not increase the basic amount of Council Tax in 2013/14. The indicative special grant allocation should the PCC set the basic amount of Council Tax for 2013/14 at a level which is no more than the 2012/13 level is £296,803.

The Localised Council Tax Support Funding for PCCs in England is a separate grant paid to policing bodies by the DCLG. That figure for Durham is expected to be £5,365,330. This has been the subject of previous reports to the Police Authority.

As well as general grant, there will continue to be additional funding through special grants for particular schemes. The funding in 2013/14 (provisional) for targeted initiatives is specifically a Counter Terrorism Grant of £750,000.

## Financial Planning Assumptions

The key income planning assumptions have been driven by funding announced in the provisional government figures and have been collated on a table and explained in detail in the previous section on police service funding.

The key expenditure related planning assumptions are reflected in the attached table

| | **Estimate 2013/14** | **Estimate 2014/15** | **Estimate 2015/16** | **Estimate 2016/17** |
|---|---|---|---|---|
| Pay Inflation (from September each year) | 1% (from 01/09/13) | 1% | 1% | 1% |
| Police Officer Vacancy Factor | 0% | 0% | 0% | 0% |
| Police Staff Vacancy Factor | 1.7% | 1.7% | 1.7% | 1.7% |
| Energy & Fuel Inflation | 5% | 5% | 5% | 5% |
| Other Non-Pay Inflation | 1% | 1% | 1% | 1% |
| Council Tax Increase | 2% | 2% | 2% | 2% |
| Other Income Inflation | 0% | 0% | 0% | 0% |

## Work Force Planning

The Constabulary recognises that the pay bill represents the largest single element of the overall budget, and that a shrinking budget will inevitably mean a reduction in human resources. Within the police service there is no right or wrong workforce mix and as such this financial plan does not seek to set out the numbers of officers and staff it expects to have in place over the period of the plan. Instead the following principles will be followed in the Force's approach to workforce planning:

- The recruitment for police staff will be considered on a case by case basis.
- No use of 'Regulation A19' is planned at present, although the Chief Constable reserves the right to use it where necessary.
- Greater use of productivity measurement and management will be utilised to maximise output.
- The offer of early and flexible retirement/voluntary redundancy will remain.
- Management of abstraction rates will focus on minimising sickness absence and length of training courses.
- Greater use of workforce modernisation will be made to improve efficiency.

This table considers the impact of all the income and revenue assumptions and identifies the Budget 2013/14 for approval.

| Budget Heading | Revised Estimate 2012/13 | Budget 2013/14 | Estimate 2014/15 | Estimate 2015/16 | Estimate 2016/17 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Employees** | | | | | |
| Police Officer Pay | 70,160 | 69,719 | 70,858 | 71,742 | 72,588 |
| Police Overtime | 2,675 | 2,069 | 2,442 | 2,442 | 2,442 |
| Police Staff Pay | 26,325 | 26,724 | 27,071 | 27,440 | 27,556 |
| Police Pensions | 1,407 | 1,506 | 1,396 | 1,396 | 1,396 |
| Other Employee Expenses | 1,045 | 724 | 727 | 730 | 733 |
| **Total Employees** | **101,612** | **100,742** | **102,494** | **103,750** | **104,715** |
| | | | | | |
| **Premises** | 4,734 | 4,500 | 4,264 | 4,348 | 4,437 |
| HQ Savings | 0 | 0 | (650) | (750) | (750) |
| **Transport Expenses** | 2,985 | 2,718 | 2,801 | 2,892 | 2,986 |
| | | | | | |
| **Supplies & Services** | | | | | |
| Equipment | 818 | 700 | 709 | 719 | 729 |
| Stationery | 341 | 381 | 388 | 395 | 402 |
| Uniform | 388 | 320 | 327 | 334 | 341 |
| Doctors | 1,485 | 1,433 | 1,449 | 1,466 | 1,483 |
| Communications | 2,090 | 1,983 | 2,010 | 2,038 | 2,066 |
| Computing | 1,714 | 1,840 | 1,860 | 1,880 | 1,901 |
| Other Supplies | 1,125 | 1,054 | 1,097 | 1,141 | 1,185 |
| **Total Supplies & Services** | **7,961** | **7,711** | **7,840** | **7,973** | **8,107** |
| | | | | | |
| Air Support | 0 | 619 | 596 | 572 | 549 |
| Joint & Other Authorities | 1,058 | 1,962 | 1,985 | 2,008 | 2,031 |
| Police National Computer | 372 | 501 | 562 | 568 | 574 |
| Forensic Science Services | 950 | 1,000 | 1,010 | 1,021 | 1,032 |
| Support Service Charges | 14 | 13 | 15 | 17 | 19 |
| ***less*** | | | | | |
| **Income** | | | | | |
| Customer & Client Receipts | (2,144) | (1,466) | (1,459) | (1,452) | (1,445) |
| Secondment Income | (514) | (123) | (123) | (123) | (123) |
| Interest | (60) | (60) | (95) | (95) | (95) |
| Council Tax Grant (2012/13) | (884) | 0 | 0 | 0 | 0 |
| Special Grants | (4,277) | (750) | (750) | (750) | (750) |
| Community Safety Grant | 0 | (770) | (770) | (770) | (770) |
| ***plus*** | | | | | |
| Pay & Prices | 0 | 0 | 0 | 0 | 0 |
| Contribution To/ From (-) Reserve | (2,145) | (3,070) | 0 | 0 | 0 |
| Capital Financing Costs | 3,731 | 4,500 | 1,485 | 1,467 | 1,782 |
| ***Police Constabulary Costs*** | 113,393 | 118,027 | 119,205 | 120,676 | 122,299 |
| ***PCC Costs*** | 1,141 | 1,203 | 1,203 | 1,203 | 1,203 |
| ***Community Safety Fund*** | 0 | 770 | 770 | 770 | 770 |

| Budget Heading | Revised Estimate 2012/13 | Budget 2013/14 | Estimate 2014/15 | Estimate 2015/16 | Estimate 2016/17 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Net Expenditure** | 114,534 | 120,000 | 121,178 | 122,649 | 124,272 |
| ***Funded by*** | | | | | |
| Revenue Support Grant | (807) | 0 | 0 | 0 | 0 |
| Non Domestic Rates | (41,638) | (40,598) | (39,381) | (38,594) | (37,823) |
| Specific Grant | (44,266) | (47,300) | (45,408) | (44,500) | (43,610) |
| Council Tax Grant (2011/12) | 0 | (728) | 0 | 0 | 0 |
| Damping Grant | 0 | 0 | 0 | 1,000 | 2,000 |
| Deficit on Collection Funds | 0 | 0 | 0 | 0 | 0 |
| Council Tax Support Grant | 0 | (5,365) | (5,115) | (5,115) | (5,115) |
| Council Tax | (29,476) | (24,706) | (25,200) | (25,704) | (26,219) |
| | (116,187) | (118,697) | (115,104) | (112,913) | (110,767) |
| ***(Surplus) / Deficit*** | (1,653) | 1,303 | 6,074 | 9,736 | 13,505 |

Comment:

- The revised estimate for 2012/13 predicts a surplus that will be used to support the capital programme.
- The budget deficit in 2013/14 is approximately £1.303m or 1.09% of the Budget Requirement. This is considered to be a manageable amount of money to find without it impacting on service delivery. Areas of review to identify savings will include: vacant posts, procurement, pay allowances and workforce modernisation.
- The years commencing 2014/15 and beyond are more challenging. This will require more detailed work across all commands, as well as working with partners. The medium term financial plan figures are a best estimate at present due to uncertainties relating to government grant funding and precept levels.
- The latest HMIC Value for Money Profiles has been used to identify areas for further consideration during 2013/14 which may deliver savings into 2014/15 and beyond.

## Capital Expenditure

The enclosed capital summary sets out proposed expenditure for capital projects for 2012/13 to 2016/17 and the associated funding options. The PCC received £1,279,000 of capital grant in 2012/13 and will receive £1,147,000 in 2013/14. In future years it is estimated that between £1.1m and £1.2m per annum will be received.

There are a number of options open to the PCC to funding capital expenditure and these include capital receipts, use of reserves or revenue contributions to capital. The balance of funding would be generated from borrowing which would incur interest charges at prevailing market rates (unless the PCC enters into specific term borrowing arrangements such as fixed interest rates over a fixed borrowing term).

The impact of any capital receipts generated from the sale of land owned by the PCC for development of commercial or housing purposes has not been included in the funding at this stage. The County Council has given planning permission for the new HQ and the selection of the building contractor has been completed. Generally speaking land use for housing will generate a more significant capital receipt than use for commercial purposes.

**Revenue Impact of the Capital Programme**

The PCC can determine to meet part of the capital requirement through revenue contributions, applying capital receipts, applying reserves, and/or (under the provisions of the Prudential Code) borrowing.

The associated future capital financing charges as a result of this provisional programme have been determined based upon the expected lifespan of the asset, generally as follows: Motor Vehicles (4 years); IT Systems (5 years); ANPR Equipment (10 years); Minor Building Work (15 years); Major New Buildings (50 years).

The proposed financing includes utilisation of the Capital Modernisation Reserve over the period. Grant is applied to those assets with the shortest lifespan. No account has been taken of any capital receipts arising from the sale of the police headquarters' site.

The following table contains a summary of capital expenditure by asset category. The capital financing charge has reduced from 2012/13 to 2015/16. This is as a result of a number of assets being fully financed. The strategic capital reserve has been applied to shorter life assets over the years 2012/13 to 2013/14.

| Asset Category | Estimate 2012/13 £'000 | Estimate 2013/14 £'000 | Estimate 2014/15 £'000 | Estimate 2015/16 £'000 | Estimate 2016/17 £'000 |
|---|---|---|---|---|---|
| **Expenditure** | | | | | |
| Buildings: New HQ | 3,300 | 11,250 | 2,500 | 0 | 0 |
| Buildings: Minor Works | 880 | 1,650 | 250 | 230 | 230 |
| Vehicles | 1,108 | 1,100 | 1,300 | 1,100 | 1,050 |
| ICT | 1,480 | 2,043 | 1,065 | 1,205 | 890 |
| Equipment | 532 | 256 | 171 | 244 | 151 |
| **Total** | **7,300** | **16,299** | **5,286** | **2,779** | **2,321** |
| **Funding** | | | | | |
| Capital Grant | 1,279 | 1,147 | 1,200 | 1,100 | 1,100 |
| Special Grant | 577 | 0 | 0 | 0 | 0 |
| Capital Receipts | 0 | 0 | 1,000 | 0 | 0 |
| Revenue Contribution | 0 | 0 | 0 | 0 | 0 |
| Strategic Reserve | 2,190 | 3,025 | 0 | 0 | 0 |
| Unsupported Borrowing | 3,255 | 12,127 | 3,086 | 1,679 | 1,221 |
| **Total** | **7,300** | **16,299** | **5,286** | **2,779** | **2,321** |
| **Capital Financing Costs** | | | | | |
| Minimum Revenue Provision | 1,534 | 1,091 | 1,024 | 941 | 1,218 |

| Asset Category | Estimate 2012/13 £'000 | Estimate 2013/14 £'000 | Estimate 2014/15 £'000 | Estimate 2015/16 £'000 | Estimate 2016/17 £'000 |
|---|---|---|---|---|---|
| Contribution from Reserves | 2,145 | 3,070 | 0 | 0 | 0 |
| Interest Charges | 52 | 338 | 460 | 526 | 565 |
| **Total** | **3,731** | **4,500** | **1,485** | **1,467** | **1,782** |

The most significant capital expenditure is explained over the next few paragraphs and a table showing detailed planned expenditure between 2012/13 and 2016/17 is included at the bottom of this section.

**Estates**

The primary focus for the Estates programme will be construction of the new headquarters and development of the old headquarters' site. The capital programme includes development of a new vehicle maintenance facility and building works at Chester le Street.

There will still be a regular buildings improvement and maintenance programme undertaken for the rest of the Estate.

**Fleet**

The implications of the Altogether Forward Operating Model may have an impact on the fleet replacement programme and this will be kept under review. It is planned to spend a relatively consistent figure each year on vehicles.

**ICT**

The ICT Strategy outlines the capital schemes to be delivered over the period covered by the plan. The majority of the ICT expenditure in 2013/14 would relate to the new headquarters. Other key schemes are as follows:

- ICT Infrastructure: There is a business need to refresh and extend some components of the ICT infrastructure. This includes extending storage capacity to support the Electronic Records Document Management programme.
- Business Applications: The primary costs over the next three years will be the continued consolidation of our business applications through the Blue Delta and Red Sigma programmes.

The following table includes details of new capital expenditure by asset category.

| **Planned Capital Expenditure from 2012/13 to 2016/17** | | | | | |
|---|---|---|---|---|---|
| | **Estimate 2012/13 £'000** | **Estimate 2013/14 £'000** | **Estimate 2014/15 £'000** | **Estimate 2015/16 £'000** | **Estimate 2016/17 £'000** |
| HQ Redevelopment | 1,100 | 10,000 | 2,500 | | |
| HQ Off Site Relocations | 2,200 | 750 | | | |
| Newton Aycliffe Demolition and New Build | | 500 | | | |
| **Sub total** | **3,300** | **11,250** | **2,500** | **0** | **0** |
| **Minor Works Projects** | | | | | |
| Chester le Street Police Station Maintenance | | 450 | | | |

| Planned Capital Expenditure from 2012/13 to 2016/17 | | | | | |
|---|---|---|---|---|---|
| | Estimate 2012/13<br><br>£'000 | Estimate 2013/14<br><br>£'000 | Estimate 2014/15<br><br>£'000 | Estimate 2015/16<br><br>£'000 | Estimate 2016/17<br><br>£'000 |
| New Training Accommodation | | 400 | | | |
| Darlington Backlog Maintenance | 200 | 550 | | | |
| Accommodation Improvements | 115 | 100 | 100 | 80 | 80 |
| Custody Improvements | 410 | 50 | 50 | 50 | 50 |
| Legislative Compliance | 155 | 100 | 100 | 100 | 100 |
| **Sub total** | **880** | **1,650** | **250** | **230** | **230** |
| **Motor Vehicles** | **1,108** | **1,100** | **1,300** | **1,100** | **1,050** |
| **ICT PROJECTS** | | | | | |
| New Police HQ | | 723 | | | |
| Telephone Interface on Cortex Control Systems - Hardware/Software | 70 | | | | |
| Virtualise Cortex Servers | | 10 | | | |
| Follow Me Printing | | 20 | | | |
| Expand Access Management | 100 | | | | |
| Mobile Data (Grant Funded) | 251 | | | | |
| PC Replacement, | 120 | 150 | 150 | | |
| Desktop Virtualisation | | | | 200 | 100 |
| Server & Storage Replacement | 12 | | 20 | 50 | |
| INCA Replacement | | 100 | | | |
| Replace Covert Airwave Terminals | | | 200 | | |
| Computer Anti-Virus | 25 | | | 20 | |
| Web E-mail security improvements | | | | 100 | |
| LAN Switch Refresh | 20 | | | 20 | 20 |
| LAN Core Switch Refresh | | | | | 150 |
| WAN Hardware | | | | | 120 |
| Review Server Infrastructure | | | | | 200 |
| Review Storage Solution | | | | 250 | |
| IP Telephony | | | | 200 | 200 |
| Loan Equipment Review/Replace | | | 5 | | |
| On Call Remote Access Equipment Review/Replace | | | 5 | | |
| Endpoint Control Review | | | | 35 | |
| Projector Review/Replace | | | | 20 | |
| Interactive Whiteboards Review | | | | 20 | |
| Other Infrastructure | 62 | | | | |
| External CCTV DVR Replacement | 55 | | 120 | | |
| Custody DVR Replacement | | | | 190 | |
| Expand Video Conferencing Lync - External Conference | | | 45 | | |
| Dynamics / Blue Delta Development | 352 | 365 | 100 | 100 | |
| Replace Microsoft Licence Arrangements | 230 | 250 | | | |
| Case & Custody | | 250 | | | |
| Intranet/Internet | 36 | | | | |

| Planned Capital Expenditure from 2012/13 to 2016/17 | | | | | |
|---|---|---|---|---|---|
| | Estimate 2012/13<br><br>£'000 | Estimate 2013/14<br><br>£'000 | Estimate 2014/15<br><br>£'000 | Estimate 2015/16<br><br>£'000 | Estimate 2016/17<br><br>£'000 |
| GIS Replacement | | | 120 | | |
| Asset Management / Service Desk | | | | | 100 |
| Zanzibar (National Procurement System) | 25 | | | | |
| ERDMS | 102 | 175 | | | |
| Review or Replace Origin/DMS | 20 | | 300 | | |
| **Sub total** | **1,480** | **2,043** | **1,065** | **1,205** | **890** |
| **Equipment** | **532** | **256** | **171** | **244** | **151** |
| **Grand Total** | **7,300** | **16,299** | **5,286** | **2,779** | **2,321** |

## Key Risks

The following are the key risks contained within the plan

| Risk | Mitigating Action | Person Responsible |
|---|---|---|
| Loss of damping grant | • Future financial modelling of budgets<br>• Workforce planning to reduce officer/staff numbers | • Director of Finance / Treasurer |
| An ageing estate portfolio putting increased pressure on facilities management budgets | • Maximise HQ capital receipt<br>• Agree and deliver capital programme time<br>• Effective project planning | • ACO / PCC<br>• ACO<br>• PCC |
| Police officer capacity to respond to service demands | • Allocating resource to priority activities<br>• Reducing or stopping non priority activities<br>• Productivity measurement and management | • Heads of Commands |
| Flexibility to move police resources to areas of need | • Plan on a page promulgated across the organisation | • Force Executive / Tasking & Coordination |
| Crime does not continue to fall | • On-going crime prevention/detection and problem solving<br>• Productivity | • Heads of Commands |

| Risk | Mitigating Action | Person Responsible |
|---|---|---|
| | measurement and management | |
| Police staff capacity to respond to service demands | • Allocating resource to priority activities<br>• Reducing or stopping non priority activities | • Heads of Commands |
| Much greater grant loss that envisaged | • Environmental scanning<br>• Cost reduction plans to be developed | • Heads of Commands |
| Collaboration may require up-front costs of change | • Identify 'invest to save' budget/reserve | • Director of Finance / Treasurer |
| Localisation of business rates | • Being aware of developments as this will not impact until 2014/15 at the earliest | • ACO / Treasurer |
| Reduction in council tax benefits payments funding form central government to local government | • Creating clear set of rules with local councils to ensure that the last port of call for a financial contribution is from the Police | • ACO / Treasurer |
| PCC precept freeze or small increase | • Explain potential impact of decision<br>• Identify further savings | • ACO / Treasurer |
| Reduction in Community Safety Funding impact on the Force Revenue Budget | • Explain potential impact of decision<br>• Identify further savings | • ACO / Treasurer |

## Monitoring and Review

This financial plan will be subject to continuous review and forms part of the overall planning processes within the OPCC and Constabulary. This will ensure that an accurate future financial forecast is maintained to give an indication as to the affordability of spending plans which in turn will be fed into the corporate planning process.

The content of this plan will be kept under review as part of normal medium term financial planning procedures.