

# Executive Board

23<sup>rd</sup> January 2014

## Revenue & Capital Budgets 2014/15

### Medium Term Financial Plan 2013/14 to 2017/18

#### Joint Report of PCC Chief Finance Officer and Chief Constable

---



#### Introduction

- The purpose of this report is to enable the Police and Crime Commissioner (PCC) to:
  - a. Set the revenue budget and issue the policing precept for 2014/15,
  - b. Approve the revised capital budget for 2013/14 and the capital budget for 2014/15,
  - c. Approve the treasury management policy and strategy for 2014/15,
  - d. Approve the medium term financial plan.
  - e. Consider the robustness of the estimates and adequacy of reserves.

#### Background

- The provisional financial settlement for 2014/15 (December 2013) announced a reduction in core Government funding to Policing Services of 4.8% when compared to 2013/14.
- The Medium Term Financial Plan in Appendix 3 shares a picture of our estimates for future years. Whilst a balanced budget for the financial year 2014/15 can be achieved there will be a tough challenge for 2015/16 with a revenue gap of £1.5million and 2016/17 with a revenue gap of £4.1m after taking account of agreed reductions in officer and staff numbers. Provisional financial settlement figures are not yet available for 2015/16 from the Treasury and until those indications are available it is estimated that income from central government will reduce by approximately £4.049m.
- 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.
- It should be noted that PCC's will receive funding equivalent to a 1% increase in council tax if they freeze the household charge in 2014/15 and 2015/16. When these grants cease to be paid by Government, further permanent reductions to the base budget, equivalent to the level of grant received, will need to be made to balance the budget.
- Online consultation has been undertaken on the proposed precept increase and in addition face to face meetings were held with the public across the Force area

in January 2014, seeking views about, amongst other things, potential precept increases in 2014/15. Whilst the majority of the online consultees felt that Council Tax levels should remain the same or be reduced, the overall consensus was that from attendees at the meetings was that a 2% increase in precept for 2014/15 would be acceptable.

## Budget 2014/15

### Local Authority Finance Settlement

- The final Local Government Finance Settlement, together with the Police Grant Report for 2014/15, will be agreed by the House of Commons in January or February 2014. It is anticipated that this final settlement will mirror the provisional settlement which was issued on 18<sup>th</sup> December 2013. Central funding for 2014/15 has been set at £90.554m, a decrease of £4.207m (4.8%) compared with the 2013/14 figures. The table shows the anticipated fall in central government funding in future years as follows:

	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Police Grant	47,300	45,754	43,695	42,166	40,691
DCLG General Grant	40,598	38,690	36,950	35,657	34,410
Community Safety Grant	770	Merged into Police Grant			
Council Tax Grant (2011/12)	728	Merged in to Legacy Council Tax Freeze Grants			
Council Tax Support Grant	5,365	Merged in to Legacy Council Tax Freeze Grants			
Legacy Council Tax Freeze Grants		6,110	5,860	5,133	5,133
<b>Central Gov't Funding</b>	<b>94,761</b>	<b>90,554</b>	<b>86,505</b>	<b>82,956</b>	<b>80,234</b>
<b>Reduction in Funding</b>	<b>1,421</b>	<b>4,207</b>	<b>4,049</b>	<b>3,549</b>	<b>2,722</b>

- The Provisional Settlement also reflects the absorption of the community safety grant into the core Police Grant. The PCC maintained a 'business as usual' basis for initiatives supported by the Community Safety Fund in 2013/14. The PCC has introduced a formal process to assess initiatives and fund them accordingly. That process will continue to be applied when considering funding bids for community safety activities.
- The Localised Council Tax Support Funding and Council Tax Freeze Grant (2011/12) for PCCs in England have been merged into a single fund called Legacy Council Tax Grants and will be paid to policing bodies by the DCLG. That figure for Durham is expected to be £6,110,124. As well as general grant, there will continue to be a special Counter Terrorism Grant expected to be in the region of £830,000 in 2014/15.
- The Police and Crime Commissioner (PCC) will be eligible for a council tax freeze grant in 2014/15 and 2015/16 equivalent to a 1% increase in the local

precept if the PCC does not increase the basic amount of Council Tax in 2014/15. The indicative special grant allocation should the PCC set the basic amount of Council Tax for 2014/15 at a level which is no more than the 2013/14 level is £247,040.

- The government has yet to announce the 2014/15 Council Tax capping criteria. This is not expected until mid-February which makes forward planning difficult. The main body of this report recommends a 2% increase. Appendices 5a and 5b show the relevant figures for a 1.5% increase (Appendix 5a) and a 1% increase (Appendix 5b).
- Every 1% variation in the Band D Council Tax affects the Council Tax Requirement by £0.24m. 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 £156.47 to £159.59 per annum, an increase of £3.12 per annum which is 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 £2.08 from £104.31 to £106.39 per annum, which is equivalent to 4p per week.
- Funding has been allocated nationally to other specific areas where there is a national policing interest such as to the Independent Police Complaints Commission (to deal with serious and sensitive cases involving the police) and the HMIC to fund a new annual programme of all force inspections. This effectively means that less grant is available to each Force.

### **Savings 2014/15 to 2016/17**

- The medium term financial plan indicates the projected revenue and capital expenditure positions for the next four years.
- The PCC and Chief Constable have agreed to lose 110 police officer posts and 120 police staff posts over the period from 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2017 and this is reflected in the Medium Term Financial Plan. In addition, £1.2m is estimated to be saved from non-pay budgets but this is not reflected in the Medium Term Financial Plan.
- The most recent Medium Term Financial Plan (Appendix 3) shows a balanced budget for 2014/15, a revenue gap in the region of £1.5million for 2015/16 with and a revenue gap in the region of £4.1m for 2016/17. This gap takes into consideration the impact of the police officer and staff posts that will be reduced over the period from 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2017.
- The size of the savings will mean an inevitable reduction in the numbers of police officers and police staff because 80% of total costs are directly for employees.
- There is a continuous programme of business review led by Commanders to balance the impact of cost reduction and service delivery. That review is evaluating options and developing plans to meet the twin challenges of maintaining (even improving) service levels and balancing the budget.
- Those options will be considered by the Executive Board prior to authorisation to proceed with the plans.

### **2014/15 Council Tax Requirement**

**NOT PROTECTIVELY MARKED**

- 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 2014/15, determined by the relevant authorities and notified to the Police and Crime Commissioner, are as follows:

<b>Council</b>	<b>Notified Council Tax Base</b>
Durham County	129,047.40
Darlington	30,308.40
Aggregate Council Tax Base	159,355.80

- 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.

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

- A budget of £115,985,847 would result in a 2% increase in Band D Council Tax.

	<b>£</b>	<b>£</b>
<b>PCC's Budget Requirement (based on an increase in Basic Council Tax of 2%)</b>		115,985,847
<b>Less:</b>		
Specific Grant	45,753,834	
Re-distributed Non-Domestic Rates	38,690,297	
Legacy Council Tax Grants	6,110,124	
		90,554,255
		25,431,592
<b>Add:</b>		
Estimated overall net deficit on Collection		
Funds at 31 <sup>st</sup> March 2014		0
<b>Council Tax Requirement</b>		<b>25,431,592</b>

This would mean a council tax of:

$$\frac{\text{£25,431,592}}{159,355.80} = \text{£159.59}$$

- It is recommended that the Council Tax Requirement be set at a level that results in a 2% increase in Band D Council Tax for the year ending 31<sup>st</sup> March 2015 and
  - a. That in determining the Council Tax Requirement, the PCC notes the PCC Chief Finance Officer's report on the robustness of the estimates and the adequacy of reserves and risks in the budget and is attached as Appendix 4.
  - b. The 'council tax base' for the whole of the Force area of County Durham and Darlington will be **159,355.80**.
  - c. The 'basic amount of council tax' be £159.59 and the amount of council tax for each category of dwelling be as follows:

Valuation Band	(Proportion of Basic Amount)	Council Tax 2014/15
		£
A	(6/9)	106.39
B	(7/9)	124.13
C	(8/9)	141.86
D	('basic amount')	159.59
E	(11/9)	195.07
F	(13/9)	230.54
G	(15/9)	266.00
H	(18/9)	319.20

- d. The Budget Requirement be £115,985,847 and that (after taking account of Police Specific Grant of £45,753,834, Re-distributed Non-Domestic Rates of £38,690,297 and Legacy Council Tax Grants of £6,110,124 precepts totalling £25,431,592 be issued to Authorities as follows:

Council	Council Tax Base	Precept (£)
Durham County	129,047.40	20,594,674
Darlington	30,308.40	4,836,918
	<b>159,355.80</b>	<b>25,431,592</b>

- 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**

- 3 April 2014
- 2 May 2014
- 3 June 2014
- 3 July 2014
- 5 August 2014
- 5 September 2014
- 7 October 2014
- 7 November 2014
- 9 December 2014
- 9 January 2015

(b) **Darlington Borough Council**

- 17 April 2014
- 28 May 2014
- 2 July 2014
- 6 August 2014
- 11 September 2014
- 16 October 2014
- 20 November 2014
- 29 December 2014
- 3 February 2015
- 10 March 2015

**Level of Financial Reserves**

- 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 Chief Finance Officer (for the PCC and Chief Constable) that general 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 2014/15 than previous years.
- 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 PCC Chief Finance Officer 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 £4.639m and £5.799m respectively (based on 2014/15 revenue funding of £115.986m) subject to an annual review by the PCC Chief Finance Officer as part of the budget process.
- The following tables show the estimated movement in financial reserves over the period to 31<sup>st</sup> March 2015 assuming a 2% Council Tax increase for 2014/15. The Capital Modernisation and Capital Grants Unapplied reserves are the specific earmarked reserves used to contribute to the funding of the capital programme in 2013/14 and 2014/15. There is a movement from the General Reserve of £127,000 to the Earmarked Reserve (Capital Modernisation) in 2013/14 and that

**NOT PROTECTIVELY MARKED**

is to align the General Reserve with the Reserves Policy by keeping the reserve level at the top of the policy limit at 5%.

<b>Financial Reserves</b>	<b>Balance at 31/3/13</b>	<b>Variation 2013/14</b>	<b>Estimated Balance 31/3/14</b>	<b>Variation 2014/15</b>	<b>Estimated Balance 31/3/15</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
General	5,926	-127	5,799	-	5,799
Usable Capital Receipt	25	-	25	-	25
Earmarked	12,920	-2,494	10,426	-2,093	8,333
<b>Total Reserves</b>	<b>18,871</b>	<b>-2,621</b>	<b>16,250</b>	<b>-2,093</b>	<b>14,157</b>

	<b>31<sup>st</sup> March 2013</b>	<b>31<sup>st</sup> March 2014</b>	<b>31<sup>st</sup> March 2015</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Capital Modernisation	6,267	3,639	3,079
Capital Grants Unapplied	1,527	1,782	249
Staff Pensions & Severance	1,500	1,500	1,500
Insurance	574	574	574
Police Officer Pensions	676	676	676
Investment in IT	250	250	250
PCC	343	222	222
Community Safety Reserve	268	268	268
Training	150	150	150
NEASU	172	172	172
Tactical Training Centre	85	85	85
Other	1,108	1,108	1,108
Usable Capital Receipt	25	25	25
General Reserve	5,926	5,799	5,799
<b>Total</b>	<b>18,871</b>	<b>16,250</b>	<b>14,157</b>

**Key Risks**

- 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,

**NOT PROTECTIVELY MARKED**

- c. Police officer capacity to respond to service demands,
- d. Flexibility to move police resources to areas of need,
- e. Crime continues to rise,
- f. Police staff capacity to respond to service demands,
- g. Much greater grant loss than envisaged,
- h. Collaboration may require up-front costs of change,
- i. Localisation of business rates,
- j. Reduction in council tax benefits payments funding from central government to local government,
- k. PCC precept freeze or small increase,

## Capital Budget 2013/14 & 2014/15

### Prudential Code (including Treasury Management)

- 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 2014/15 totals £9.462m of which part could be met with a contribution from the Capital Modernisation Reserve. In order to reduce the impact on the 2014/15 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 transfers from the Capital Modernisation Reserve. Technical recommendations relating to the Code are set out in Appendix 2.
- 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.
- 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 consideration.
- **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 2014/15 in order to facilitate the major capital programme outlined in the Medium Term Financial Plan.**
- The 2013/14 capital programme is progressing, especially in relation to estate and fleet improvements. The revenue consequences of this programme have been taken into account in the 2014/15 budget and medium term financial plan. Certain salaries are committed but not yet fully delivered and it is therefore necessary to allow a carry forward into 2014/15.
- **It is recommended that the PCC agrees the carry forward of underspends on the 2013/14 capital programme.**



### Considerations under the Prudential Code

- 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 2014/15 and 2015/16.
  - 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 2013/14 and the proposed capital expenditure for 2014/15 to 2017/18 are detailed in the table below.

<b>Asset Category</b>	<b>Outturn 2013/14 £'000</b>	<b>Estimate 2014/15 £'000</b>	<b>Estimate 2015/16 £'000</b>	<b>Estimate 2016/17 £'000</b>	<b>Estimate 2017/18 £'000</b>
<b>Expenditure</b>					
Buildings: New HQ	10,521	5,800	1,000	0	0
Buildings: Minor Works	2,475	350	250	250	250
Vehicles	1,233	1,100	950	900	900
ICT	1,965	2,041	1,625	900	900
Equipment	431	171	451	150	150
<b>Total</b>	<b>16,625</b>	<b>9,462</b>	<b>4,276</b>	<b>2,200</b>	<b>2,200</b>
<b>Funding</b>					
Capital Grant	892	2,733	1,100	1,050	1,050
Special Grant	11	146	0	0	0
Capital Receipts	0	0	1,000	0	0
Revenue Contribution	0	0	0	0	0
Strategic Reserve	3,155	433	926	900	0
Unsupported Borrowing	12,567	6,150	1,250	250	1,150
<b>Total</b>	<b>16,625</b>	<b>9,462</b>	<b>4,276</b>	<b>2,200</b>	<b>2,200</b>
<b>Capital Financing Costs</b>					
Minimum Revenue Provision	1,265	555	883	672	905
Revenue Contribution	0	0	0	0	0

<b>Asset Category</b>	<b>Outturn 2013/14 £'000</b>	<b>Estimate 2014/15 £'000</b>	<b>Estimate 2015/16 £'000</b>	<b>Estimate 2016/17 £'000</b>	<b>Estimate 2017/18 £'000</b>
Contribution from Reserves	3,155	433	926	900	0
Interest Charges	219	455	558	572	588
<b>Total</b>	<b>4,640</b>	<b>1,443</b>	<b>2,367</b>	<b>2,144</b>	<b>1,493</b>

- 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 2013/14 to 2017/18**

- The Medium Term Financial Plan has been updated and is attached as Appendix 3.
- Council Tax increases are assumed at 2% for 2014/15 and beyond.
- The Local Government Provisional Finance Settlement provides details of formula grant levels for 2014/15. No settlement figures are included for 2015/16 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 the Chief Constable's staff and the PCC Chief Finance Officer's staff for their invaluable support and assistance.

**G Ridley**

PCC Chief Finance Officer

**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 within the MTFP.

### **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 reducing budget. The Continuous Improvement Board will oversee VFM and productivity in relation to the delivery of the 2014/15 budget.

### **Value for Money and Productivity**

N/A

### **Other risks**

N/A

**Contact Officer:** Gary Ridley  
**Job Title:** PCC Chief Finance Officer  
**Telephone:** 0191 3834003  
**Email:** Gary.ridley@durham.pnn.police.uk

## PRUDENTIAL CODE

### Background

1. The framework of the prudential capital finance system, which came into effect from 1<sup>st</sup> 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 1<sup>st</sup> 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 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:

	<b>Estimate 2013/14 £'000</b>	<b>Estimate 2014/15 £'000</b>	<b>Estimate 2015/16 £'000</b>	<b>Estimate 2016/17 £'000</b>	<b>Estimate 2017/18 £'000</b>
Expenditure	16,225	9,462	4,276	2,200	2,200

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

	<b>Estimate 2013/14</b>	<b>Estimate 2014/15</b>	<b>Estimate 2015/16</b>	<b>Estimate 2016/17</b>	<b>Estimate 2017/18</b>
Ratio of Financing Costs to Net Revenue Stream	3.91%	1.24%	2.11%	1.96%	1.39%
Financing Costs (£'000)	4,640	1,443	2,367	2,144	1,493
Net Revenue Stream (£'000)	118,695	115,986	112,446	109,416	107,224

The indicator takes into account minimum revenue provision and any contributions from reserves. 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:

<b>Capital Financing Requirement</b>	<b>Estimate 2013/14 £'000</b>	<b>Estimate 2014/15 £'000</b>	<b>Estimate 2015/16 £'000</b>	<b>Estimate 2016/17 £'000</b>	<b>Estimate 2017/18 £'000</b>
	21,146	26,742	27,109	26,686	26,931

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 2014/15 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 gross 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 1<sup>st</sup> April 2008, but only for capital expenditure financed by supported borrowing during 1<sup>st</sup> April 2008 to 31<sup>st</sup> 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 1<sup>st</sup> 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.

<b>Authorised Limits</b>	<b>Estimate 2013/14 £'m</b>	<b>Estimate 2014/15 £'m</b>	<b>Estimate 2015/16 £'m</b>	<b>Estimate 2016/17 £'m</b>	<b>Estimate 2017/18 £'m</b>
Borrowing	26.1	31.7	32.1	31.7	31.9
Long term Liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	26.1	31.7	32.1	31.7	31.9

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 PCC Chief Finance Officer'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 PCC Chief Finance Officer. Within the Operational Boundary, figures for borrowing and other long-term liabilities are separately identified.

<b>Operational Boundary for External Debt</b>	<b>Estimate 2013/14 £'m</b>	<b>Estimate 2014/15 £'m</b>	<b>Estimate 2015/16 £'m</b>	<b>Estimate 2016/17 £'m</b>	<b>Estimate 2017/18 £'m</b>
Borrowing	21.1	26.7	27.1	26.7	26.9
Long term Liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	21.1	26.7	27.1	26.7	26.9

### Council Tax

18. The Prudential Indicators have been calculated assuming a 2% increase in 2014/15 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:

<b>Incremental Impact on Band D Council Tax</b>	<b>Estimate 2013/14</b>	<b>Estimate 2014/15</b>	<b>Estimate 2015/16</b>
	<b>%</b>	<b>%</b>	<b>%</b>
	-0.07%	0.19%	-0.02%

### 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 2014/15 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 PCC Chief Finance Officer, 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 2013/14, 2014/15 and 2015/16 of 100% of its net outstanding principal sum.

25. The PCC has further set an upper limit on its variable interest rate exposures for 2013/14, 2014/15 and 2015/16 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
	%	%
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 2013/14 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 to 14) of this report,
- c. Determines an Authorised Limit of £31.7m and an Operational Boundary Limit of £26.7m for external debt in 2014/15.
- 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 2013/14, 2014/15 and 2015/16 of 100% of the net outstanding principal sum.
- f. Sets an upper limit on the variable interest rate exposures for 2013/14, 2014/15 and 2015/16 of 30% of its net outstanding principal sums.

## 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.

## Treasury Management Practices

### 1. **TMP1 – Treasury Risk Management**

#### 1.1. *The PCC Chief Finance Officer 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).

## **5. TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS**

- 5.1. 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.
- 5.2. 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.
- 5.3. If and when the PCC intends, as a result of lack of resources or other circumstances, to depart from these principles, the PCC Chief Finance Officer 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.
- 5.4. The PCC Chief Finance Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover.
- 5.5. The PCC Chief Finance Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.
- 5.6. The PCC Chief Finance Officer 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.

## **6. TMP6 - REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

- 6.1. 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.
- 6.2. As a minimum, the PCC will receive:
  - An Annual Report on the strategy and plan to be pursued in the forthcoming year;

- A half yearly report providing an update on treasury management activities (PCC borrowing and investments and a national economic forecasts);
- 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.

## **7. TMP7 - BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

- 7.1. The PCC will account for treasury management activities in accordance with appropriate accounting practices and standards and with statutory and regulatory requirements.
- 7.2. 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.

## **8. TMP8 - CASH AND CASH FLOW MANAGEMENT**

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

## **9. TMP 9 - MONEY LAUNDERING**

- 9.1. 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.

## **10. TMP 10 - STAFF TRAINING AND QUALIFICATIONS**

- 10.1. 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 PCC Chief Finance Officer will recommend and implement the necessary arrangements.

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

- 11.1. When external service providers are employed by the PCC, the PCC Chief Finance Officer 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.
- 11.2. 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 PCC Chief Finance Officer.

## **12. TMP 12 - CORPORATE GOVERNANCE**

- 12.1. 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.
- 12.2. 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 PCC Chief Finance Officer will put in place, is considered vital to the achievement of proper corporate governance in treasury management, and the PCC Chief Finance Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.



## **Treasury Management Strategy 2014/15**

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 2014/15 to 2015/16**

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 PCC Chief Finance Officer, 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 2014/15 to 2015/16**

#### **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

## NOT PROTECTIVELY MARKED

depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the 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 (based on the credit rating of the institutions that the PCC invests with; the length of time of the investments; and the historical rate of default of similar rated counterparties). This rate is provided by our treasury management advisors and the rate of 0.08 is considered extremely low risk
- 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) and as a guide the current rate of LIBID is 0.38% (as at January 2014).

### 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 PCC Chief Finance Officer 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

NOT PROTECTIVELY MARKED

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 a 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:

	<b>Long term Rating)</b>	<b>Money Limit</b>	<b>Time Limit</b>
Banks 1 category high quality	AA	£5m	1 year
Banks 1 category medium quality	A-	£2m	3 months

**NOT PROTECTIVELY MARKED**

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	AA+	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 2014/15 is an increase of £116,000. 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 PCC Chief Finance Officer, 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.

**Durham Police & Crime Commissioner  
Medium Term Financial Plan  
2013/14 to 2017/18**

**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. The austerity measures are expected to continue until 2020 regardless of the political persuasion of the government elected in May 2015.

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 1<sup>st</sup> April 2013. 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. 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 Vision:*

***“Durham Constabulary will deliver excellent policing inspiring confidence in victims and our communities by protecting neighbourhoods, tackling criminals, and solving problems around the clock.”***

There are two key objectives that Durham Constabulary are focussed on delivering for the citizens of County Durham & Darlington:

### **Inspire Confidence in our Communities**

#### **Deliver High Satisfaction**

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,
- Use of Resources.

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):
  - Protecting 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 Staff,
    - 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 2014/15, will be agreed by the House of Commons in January or February 2014. It is anticipated that this final settlement will mirror the provisional settlement which was issued on 18<sup>th</sup> December 2013. Central funding for 2014/15 has been set at £90.554m, a decrease of £4.207m (4.8%) compared with the 2013/14 figures. The next table shows the anticipated fall in central government funding in future years as follows:

	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Police Grant	47,300	45,754	43,695	42,166	40,691
DCLG General Grant	40,598	38,690	36,950	35,657	34,410
Community Safety Fund	770	Merged into Police Grant			
Council Tax Grant (2011/12)	728	Merged in to Legacy Council Tax Freeze Grants			
Council Tax Support Grant	5,365	Merged in to Legacy Council Tax Freeze Grants			
Legacy Council Tax Freeze Grants		6,110	5,860	5,133	5,133
<b>Central Gov't Funding</b>	<b>94,761</b>	<b>90,554</b>	<b>86,505</b>	<b>82,956</b>	<b>80,234</b>
<b>Reduction in Funding</b>	<b>1,421</b>	<b>4,207</b>	<b>4,049</b>	<b>3,549</b>	<b>2,722</b>

- The Provisional Settlement also reflects the absorption of the community safety into the core Police Grant. The PCC maintained a 'business as usual' basis for initiatives supported by the Community Safety Fund in 2013/14. The PCC has introduced a formal process to assess initiatives and fund them accordingly. That process will continue to be applied when considering funding bids for community safety activities.
- The Localised Council Tax Support Funding and Council Tax Freeze Grant (2011/12) for PCCs in England have been merged into a single fund called Legacy Council Tax Grants and will be paid to policing bodies by the DCLG. That figure for Durham is expected to be £6,110,124. As well as general grant, there will continue to be a special Counter Terrorism Grant expected to be in the region of £830,000 in 2014/15.
- The Police and Crime Commissioner (PCC) will be eligible for a council tax freeze grant in 2014/15 and 2015/16 equivalent to a 1% increase in the local precept if the PCC does not increase the basic amount of Council Tax in 2014/15. The indicative special grant allocation should the PCC set the basic amount of Council Tax for 2014/15 at a level which is no more than the 2013/14 level is £247,040.

### 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 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18
Pay Inflation (from September each year)	1% (from 01/09/14)	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.

**NOT PROTECTIVELY MARKED**

This table considers the impact of all the income and revenue assumptions and identifies the Budget 2014/15 for approval.

<b>Budget Heading</b>	<b>Budget 2013/14</b>	<b>Budget 2014/15</b>	<b>Estimate 2015/16</b>	<b>Estimate 2016/17</b>	<b>Estimate 2017/18</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Employees</b>					
Police Officer Pay	68,142	66,011	63,676	65,237	65,152
Police Overtime	2,069	1,982	2,222	1,902	1,982
Police Staff Pay	27,682	28,119	27,791	26,045	26,310
Police Pensions	1,326	1,415	1,415	1,415	1,415
Other Employee Expenses	673	653	656	659	662
<b>Total Employees</b>	<b>99,892</b>	<b>98,180</b>	<b>95,760</b>	<b>95,258</b>	<b>95,521</b>
<b>Premises</b>	4,500	4,267	4,351	4,439	4,530
HQ Savings	0	(650)	(750)	(750)	(750)
<b>Transport Expenses</b>	2,717	2,786	2,872	2,963	3,057
<b>Supplies &amp; Services</b>					
Equipment	673	661	670	679	688
Stationery	351	356	362	368	374
Uniform	320	297	304	311	318
Doctors	1,430	1,424	1,438	1,452	1,466
Communications	2,017	1,900	1,930	1,956	1,983
Computing	1,840	1,683	1,579	1,596	1,613
Other Supplies	1,009	1,024	1,067	1,110	1,153
<b>Total Supplies &amp; Services</b>	<b>7,640</b>	<b>7,345</b>	<b>7,350</b>	<b>7,472</b>	<b>7,595</b>
Air Support	619	529	529	529	529
Joint & Other Authorities	2,031	1,998	2,021	2,044	2,067
Police National Computer	501	577	562	568	574
Forensic Science Services	970	930	940	950	960
Support Service Charges	13	3	4	5	6
<b><u>less</u></b>					
<b>Income</b>					
Customer & Client Receipts	(1,316)	(1,297)	(1,402)	(1,395)	(1,388)
Secondment Income	(385)	(385)	(385)	(385)	(385)
Interest	(60)	(95)	(95)	(95)	(95)
Council Tax Grant (2012/13)	0	0	0	0	0
Special Grants	(980)	(980)	(980)	(980)	(980)
Community Safety Grant	(770)	0	0	0	0
<b><u>plus</u></b>					
Contribution To/ From (-) Reserve	(1,500)	(433)	(926)	(900)	0
Capital Financing Costs	2,950	1,443	2,367	2,144	1,493
<b>Police Constabulary Costs</b>	<b>116,822</b>	<b>114,218</b>	<b>112,218</b>	<b>111,867</b>	<b>112,734</b>
<b>PCC Costs</b>	<b>1,103</b>	<b>998</b>	<b>998</b>	<b>998</b>	<b>998</b>

**NOT PROTECTIVELY MARKED**

**NOT PROTECTIVELY MARKED**

<b>Budget Heading</b>	<b>Budget 2013/14</b>	<b>Budget 2014/15</b>	<b>Estimate 2015/16</b>	<b>Estimate 2016/17</b>	<b>Estimate 2017/18</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Community Safety Fund</b>	770	770	735	700	700
<b>Net Expenditure</b>	118,695	115,986	113,951	113,565	114,432
<b>Funded by</b>					
DCLG Grant	(40,598)	(38,690)	(36,950)	(35,657)	(34,410)
Police Grant	(47,300)	(45,754)	(43,695)	(42,166)	(40,691)
Council Tax Grant (2011/12)	(728)	0	0	0	0
Council Tax Support Grant	(5,365)	(6,110)	(5,860)	(5,133)	(5,133)
Council Tax	(24,704)	(25,432)	(25,941)	(26,460)	(26,990)
	<b>(118,695)</b>	<b>(115,986)</b>	<b>(112,446)</b>	<b>(109,416)</b>	<b>(107,224)</b>
<b>(Surplus) / Deficit</b>	0	0	1,505	4,149	7,208

Comment:

- The budget is balanced for 2014/15 subject to the anticipated retirement of 55 police officers and loss of 28 police staff posts. The police officer posts vacated by the retirements will not be filled in 2014/15.
- Work has already commenced to address the projected deficit for 2015/16 and 2016/17. The years beyond 2014/15 will be more challenging to address and will involve careful planning for the future deployment of police officer and police staff going forwards.
- There is a continuous process reviewing (in detail) all aspects of service delivery 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 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 2013/14 to 2017/18 and the associated funding options. The PCC received £1,147,000 in 2013/14 and expects to receive £1.2m in 2014/15. In future years it is estimated that between £1.0m and £1.1m 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 building contractor commenced site works for the new HQ in March 2013. 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 applying capital receipts, making revenue contributions, 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 (20 years); Major New Buildings (60 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 from 2013/14 to 2016/17 has been affected by the application of the strategic capital reserve to shorter life assets over those years.

	<b>Outturn 2013/14 £'000</b>	<b>Estimate 2014/15 £'000</b>	<b>Estimate 2015/16 £'000</b>	<b>Estimate 2016/17 £'000</b>	<b>Estimate 2017/18 £'000</b>
<b>Expenditure</b>					
Buildings: New HQ	10,521	5,800	1,000	0	0
Buildings: Minor Works	2,475	350	250	250	250
Vehicles	1,233	1,100	950	900	900
ICT	1,965	2,041	1,625	900	900
Equipment	431	171	451	150	150
<b>Total</b>	<b>16,625</b>	<b>9,462</b>	<b>4,276</b>	<b>2,200</b>	<b>2,200</b>
<b>Funding</b>					
Capital Grant	892	2,733	1,100	1,050	1,050
Special Grant	11	146	0	0	0
Capital Receipts	0	0	1,000	0	0
Revenue Contribution	0	0	0	0	0
Strategic Reserve	3,155	433	926	900	0
Unsupported Borrowing	12,567	6,150	1,250	250	1,150
<b>Total</b>	<b>16,625</b>	<b>9,462</b>	<b>4,276</b>	<b>2,200</b>	<b>2,200</b>
<b>Capital Financing Costs</b>					
Minimum Revenue Provision	1,265	555	883	672	905
Revenue Contribution	0	0	0	0	0
Contribution from Reserves	3,155	433	926	900	0

	<b>Outturn 2013/14 £'000</b>	<b>Estimate 2014/15 £'000</b>	<b>Estimate 2015/16 £'000</b>	<b>Estimate 2016/17 £'000</b>	<b>Estimate 2017/18 £'000</b>
Interest Charges	219	455	558	572	588
<b>Total</b>	<b>4,640</b>	<b>1,443</b>	<b>2,367</b>	<b>2,144</b>	<b>1,493</b>

The most significant capital expenditure is explained over the next few paragraphs and a table showing detailed planned expenditure between 2013/14 and 2017/18 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 facility at Peterlee; completion of works at Darlington; building works at Chester le Street and works at the training centre at Meadowfield.

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

### **Fleet**

The fleet replacement programme is kept under constant review and 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. A large proportion of the ICT expenditure in the capital programme relates to the new headquarters and associated building relocations. 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; implementation of a new Case & Custody system; and the development of electronic records management.

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

<b>Planned Capital Expenditure from 2013/14 to 2017/18</b>					
	<b>Estimate 2013/14 £'000</b>	<b>Estimate 2014/15 £'000</b>	<b>Estimate 2015/16 £'000</b>	<b>Estimate 2016/17 £'000</b>	<b>Estimate 2017/18 £'000</b>
HQ Redevelopment	9,021	5,000	1,000		
Unit 1, Whitehouse Way	1,500	800			
<b>Sub total</b>	<b>10,521</b>	<b>5,800</b>	<b>1,000</b>	<b>0</b>	<b>0</b>
<b>Minor Works Projects</b>					
Newton Aycliffe Demolition	100				

Planned Capital Expenditure from 2013/14 to 2017/18					
	Estimate 2013/14 £'000	Estimate 2014/15 £'000	Estimate 2015/16 £'000	Estimate 2016/17 £'000	Estimate 2017/18 £'000
Chester le Street Police Station Improvements	841				
PSU Classroom Extension	450				
Darlington Backlog Maintenance	810				
Accommodation Improvements	130	200	100	100	100
Custody Improvements	81	50	50	50	50
Legislative Compliance	63	100	100	100	100
<b>Sub total</b>	<b>2,475</b>	<b>350</b>	<b>250</b>	<b>250</b>	<b>250</b>
<b>Motor Vehicles</b>	<b>1,233</b>	<b>1,100</b>	<b>950</b>	<b>900</b>	<b>900</b>
<b>ICT Projects</b>					
<b>Infrastructure Development</b>					430
Expand Storage Capacity					
Log Management		100			
Virtualise Cortex Servers					
Follow Me Printing	20				
Identity Access Management	100				
<b>Infrastructure Technology Refresh</b>					
PC Replacement		150			
Desktop Virtualisation			200	100	
Confidential Network	58				
CDS	26				
Server & Storage Replacement		35	100	180	
INCA Replacement					
Airwave Radios		280	50	180	470
Airwave Mobile Terminals	95	10			
Computer Anti-Virus			20		
Web E-mail Security Improvements			100		
LAN Switch Refresh			20	20	
LAN Core Switch Refresh				150	
WAN Hardware				120	
Review Storage Solution			300		
Review Fibre Switch Infrastructure			120		
Review Fibre Tape Libraries				50	
Loan Equipment Review/Replace			10		
Endpoint Control Review			35		
Projector Review/Replace			40		
Other Infrastructure	14				
<b>Digital Evidence</b>					
Central 999 Recorders		50			
Digital Interviews			260		
External CCTV Replacement	48				
Custody DVR Replacement			120		



Planned Capital Expenditure from 2013/14 to 2017/18					
	Estimate 2013/14 £'000	Estimate 2014/15 £'000	Estimate 2015/16 £'000	Estimate 2016/17 £'000	Estimate 2017/18 £'000
<b>Mobile Working</b>					
Mobile Data (Grant Funded)	11	146			
Expand Video Conferencing Lync - External Conference - Virtual Courts		65			
<b>Buildings ICT Infrastructure</b>					
New HQ ICT Infrastructure	280	215			
Telephone System	250	144			
Darlington Custody	25				
Peterlee	85	35			
Chester-Le-Street	55				
<b>Business Applications</b>					
Dynamics / Blue Delta Development	165	190	50		
Microsoft Licence Arrangements	250				
Case & Custody	200	250			
GIS Replacement			150		
Review/Replace Cortex ICCS	50				
COMPASS Migration		60			
Asset Management / Service Desk				100	
Innkeeper Upgrade Required for QAS		2			
True up SQL Server Licences		24			
Holmes Upgrade		25			
Electronic Record Data Management System	175	150	50		
EROS Project	38				
Origin / DMS	20	110			
<b>Sub total</b>	<b>1,965</b>	<b>2,041</b>	<b>1,625</b>	<b>900</b>	<b>900</b>
<b>Equipment</b>	<b>431</b>	<b>171</b>	<b>451</b>	<b>150</b>	<b>150</b>
<b>Grand Total</b>	<b>16,625</b>	<b>9,462</b>	<b>4,276</b>	<b>2,200</b>	<b>2,200</b>

### Key Risks

The following are the key risks contained within the plan

Risk	Mitigating Action	Person Responsible
Loss of damping grant	<ul style="list-style-type: none"> <li>Future financial modelling of budgets</li> <li>Workforce planning to reduce officer/staff numbers</li> </ul>	<ul style="list-style-type: none"> <li>Director of Finance / PCC Chief Finance Officer</li> </ul>
An ageing estate portfolio	<ul style="list-style-type: none"> <li>Maximise HQ capital</li> </ul>	<ul style="list-style-type: none"> <li>PCC Chief Finance</li> </ul>

**NOT PROTECTIVELY MARKED**

<b>Risk</b>	<b>Mitigating Action</b>	<b>Person Responsible</b>
putting increased pressure on facilities management budgets	receipt <ul style="list-style-type: none"> <li>• Agree and deliver capital programme time</li> <li>• Effective project planning</li> </ul>	Officer / PCC
Police officer capacity to respond to service demands	<ul style="list-style-type: none"> <li>• Allocating resource to priority activities</li> <li>• Reducing or stopping non priority activities</li> <li>• Productivity measurement and management</li> <li>• Strategic Assessment agreed and implemented</li> </ul>	<ul style="list-style-type: none"> <li>• Heads of Commands</li> </ul>
Flexibility to move police resources to areas of need	<ul style="list-style-type: none"> <li>• Plan on a page promulgated across the organisation</li> </ul>	<ul style="list-style-type: none"> <li>• Force Executive / Tasking &amp; Coordination</li> </ul>
Crime continues to rise	<ul style="list-style-type: none"> <li>• On-going crime prevention/detection and problem solving</li> <li>• Productivity measurement and management</li> </ul>	<ul style="list-style-type: none"> <li>• Heads of Commands</li> </ul>
Police staff capacity to respond to service demands	<ul style="list-style-type: none"> <li>• Allocating resource to priority activities</li> <li>• Reducing or stopping non priority activities</li> </ul>	<ul style="list-style-type: none"> <li>• Heads of Commands</li> </ul>
Much greater grant loss that envisaged	<ul style="list-style-type: none"> <li>• Environmental scanning</li> <li>• Cost reduction plans to be developed and implemented</li> </ul>	<ul style="list-style-type: none"> <li>• Heads of Commands</li> </ul>
Collaboration may require up-front costs of change	<ul style="list-style-type: none"> <li>• Identify 'invest to save' budget/reserve</li> </ul>	<ul style="list-style-type: none"> <li>• Director of Finance / PCC Chief Finance Officer</li> </ul>
Localisation of business rates	<ul style="list-style-type: none"> <li>• Being aware of developments as this will not impact until 2015/16 at the earliest</li> </ul>	<ul style="list-style-type: none"> <li>• PCC Chief Finance Officer</li> </ul>
Reduction in council tax benefits payments funding from central government to	<ul style="list-style-type: none"> <li>• Creating clear set of rules with local councils to ensure that the last</li> </ul>	<ul style="list-style-type: none"> <li>• PCC Chief Finance Officer</li> </ul>

**NOT PROTECTIVELY MARKED**

Risk	Mitigating Action	Person Responsible
local government	port of call for a financial contribution is from the Police	
PCC precept freeze or small increase	<ul style="list-style-type: none"> <li>• Explain potential impact of decision</li> <li>• Identify further savings</li> </ul>	<ul style="list-style-type: none"> <li>• PCC Chief Finance Officer</li> </ul>

**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.

### **Purpose of Report**

1. The purpose of this report is to provide the Police and Crime Commissioner (PCC) with reassurance and confidence in the accuracy and quality of the financial estimates for the years 2013/14 to 2017/18, and more importantly the budget for the coming financial year 2014/15.
2. The robustness of the financial estimates considers important factors such as risks facing the PCC and the adequacy of financial reserves to enable the PCC to have flexibility in dealing with any unplanned events that may have a significant financial consequence during the course of the budget year 2014/15.

### **Background**

3. Police and Crime Commissioners and local authorities decide every year how much they are going to raise from council tax. They base their decision on a budget that sets out estimates of what they plan to spend on each of their services.
4. The decision on the level of the council tax must be taken before the coming financial year begins and that level cannot be changed during the year, so allowances for risks and uncertainties that may create an increase in service costs or a loss of income must be made by:
  - a. Making realistic and prudent allowances in the financial estimates for the policing services provided, and also,
  - b. Ensuring that there are adequate reserves in place that can be drawn on to help manage the impact of any incident or eventuality that causes the PCC to exceed the budget estimates in 2014/15 for the delivery of policing services to the community of County Durham and Darlington.
5. Section 25 of the Local Government Act 2003 requires that the PCC's Chief Financial Officer reports to the PCC when considering the budget and council tax on the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that the PCC will have authoritative advice available to him prior to making the budget setting decisions.
6. Section 25 also requires the PCC to consider this report when making decisions about the budget.

### **Critical Role of Risk Management**

7. There is considerable (continuous) attention given to the risks facing the delivery of policing services in County Durham and Darlington. Each of the risks identified by the Force is allocated to and formally assessed by a strategic programme board.
8. When each board meets the risk registers are modified to reflect new risks, or to reflect the best available information and the impact of mitigating actions. The list of risks below have already been identified and considered by the appropriate board.

9. In setting the budget the risks facing the PCC are influenced by the uncertainties of the economic environment and the level of expenditure reductions in the Policing Service and the wider public sector, all of which present difficulties in delivering a balanced budget. The key risks have been identified in the Budget report.
10. The Annual Governance Statement gives assurance in relation to the organisation's arrangements for the management of risk and ensuring proper arrangements are in place for governing its affairs and looking after the resources at its disposal.

**Robustness of Estimates**

11. The budget process has involved the senior leadership teams in each Command, who have considered and evaluated a variety of service delivery options that balance the twin needs of maintaining service delivery and balancing the budget.
12. These options, identifying areas where savings can be made to provide the resources to fund the unavoidable service pressures, have been reported to the PCC and his Executive, which includes the Chief Constable and the PCC's Chief Financial Officer.
13. The key income and expenditure related planning assumptions are reflected in the attached table

	<b>Estimate 2014/15</b>	<b>Estimate 2015/16</b>	<b>Estimate 2016/17</b>	<b>Estimate 2017/18</b>
Pay Inflation (from September each year)	1% (from 01/09/14)	1%	1%	1%
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%

14. In relation to the robustness of the above table, the following should be noted:
  - Pay inflation. The government has previously indicated that public sector pay rises should be limited to 1% pa. Therefore the assumption within the budget is reasonable. All police officer posts are budgeted for, therefore the police office pay budget should not be overspent given that the force maintains a separate budget to fund medical retirements. In respect of police staff pay, a small vacancy factor is built in to the pay budget to reflect anticipated leavers during the year. In recent years neither the police officer pay budget nor police staff pay budget have been overspent.
  - Energy and Fuel. Work is ongoing to reduce the number of vehicles within the force which will help to reduce the overall fuel budget. Therefore the 5% inflationary increase expected for fuel is reasonable. In relation to energy, the force maintains a £50,000 energy efficiency budget with which to reduce energy costs. Again, this budget is considered reasonable.
  - Other non-pay Inflation. The 1% increase is a general provision. Whilst some budgets are reducing in price as a result of improved procurement and

reduced demand it is equally valid to state that some budgets are under constant cost pressure. In recent years, supplies and services budgets have been underspent within the force.

- Council Tax. This will be subject to the maximum permitted limit by the Home Office.
- Other Income Inflation. Where possible, the force is moving toward full cost recovery in terms of the supplies and services that it charges for. This will be subject to a discreet piece of work in the coming year. In recent years income budgets have been over-achieved therefore the budget estimates are considered reasonable.

15. Given the uncertainty about the future resources available to the PCC at the time of preparing this report and the difficult decisions facing the PCC and Executive, the estimates beyond 2014/15 are at present set out with the best available information at the time of this report. There have as yet been no indications of 2015/16 funding provided by the Department for Communities and Local Government to the police service nationally.

### **Adequacy of Reserves**

16. The CIPFA Local Authority Accounting Panel (LAAP) has issued a guidance note on Local Authority Reserves and balances (LAAP Bulletin 77) to assist local authorities in determining the adequacy of reserves. This guidance is not statutory, but compliance is seen as best practice.

17. The guidance however, states that no case has yet been made to set a statutory minimum level of reserves, either as an absolute amount or a percentage of the budget. Each Police and Crime Commissioner and local authority should take advice from its Chief Financial Officer and base its judgement on local circumstances.

18. 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 considered prudent to do so. The PCC Chief Finance Officer 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 £4.639m and £5.799m respectively (based on 2014/15 revenue funding of £115.986m) subject to an annual review by the PCC Chief Finance Officer as part of the budget process.*

19. Earmarked reserves have been established as a means of building up funds to meet known or predicted requirements. The level of earmarked reserves will be in the region of £8.5m at the end of March 2015.

20. The General Reserve has been set at 5% of the revenue funding for 2014/15 and will be £5.8m at the end of March 2015.

21. The reserves are set at a level to accommodate any significant financial impact on capital or revenue expenditure in 2014/15.

22. The PCC's approach to the management of risks alongside the PCC's financial management arrangements suggest that the level of resources identified in the Annual Budget 2014/15 is sufficient to provide reassurance and confidence in the delivery of policing services to County Durham and Darlington.

**Recommendation**

**23. It is recommended that the PCC acknowledges that the strength of the risk management processes, the adequacy of reserves and the robustness of the financial estimates give sufficient reassurance and confidence to enable him to approve the Annual Budget and the level of Council Tax for 2014/15.**

2014/15 Council Tax Requirement of 1.5%

- 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 2014/15, determined by the relevant authorities and notified to the Police and Crime Commissioner, are as follows:

<b>Council</b>	<b>Notified Council Tax Base</b>
Durham County	129,047.40
Darlington	30,308.40
Aggregate Council Tax Base	159,355.80

- 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.

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

- A budget of £115,861,550 would result in a 1.5% increase in Band D Council Tax.

	£	£
<b>PCC's Budget Requirement (based on an increase in Basic Council Tax of 1.5%)</b>		115,861,550
<b>Less:</b>		
Specific Grant	45,753,834	
Re-distributed Non-Domestic Rates	38,690,297	
Legacy Council Tax Grants	6,110,124	
		90,554,255
		25,307,295
<b>Add:</b>		
Estimated overall net deficit on Collection		
Funds at 31 <sup>st</sup> March 2014		0
<b>Council Tax Requirement</b>		<b>25,307,295</b>



This would mean a council tax of:

$$\frac{\pounds 25,307,295}{159,355.80} = \pounds 158.81$$

- It is recommended that the Council Tax Requirement be set at a level that results in an 1.5% increase in Band D Council for the year ending 31<sup>st</sup> March 2015 and
  - a. That in determining the Council Tax Requirement, the PCC notes the PCC Chief Finance Officer's report on the robustness of the estimates and the adequacy of reserves and risks in the budget and is attached as Appendix 4.
  - b. The 'council tax base' for the whole of the Force area of County Durham and Darlington will be **159,355.80**.
  - c. The 'basic amount of council tax' be £158.81 and the amount of council tax for each category of dwelling be as follows:

Valuation Band	(Proportion of Basic Amount)	Council Tax 2014/15
		£
A	(6/9)	105.87
B	(7/9)	123.52
C	(8/9)	141.16
D	('basic amount')	158.81
E	(11/9)	194.11
F	(13/9)	229.41
G	(15/9)	264.70
H	(18/9)	317.64

- d. The Budget Requirement be £115,861,550 and that (after taking account of Police Specific Grant of £45,753,834, Re-distributed Non-Domestic Rates of £38,690,297 and Legacy Council Tax Grants of £6,110,124 precepts totalling £25,307,295 be issued to Authorities as follows:

Council	Council Tax Base	Precept (£)
Durham County	129,047.40	20,494,018
Darlington	30,308.40	4,813,277
	<b>159,355.80</b>	<b>25,307,295</b>

2014/15 Council Tax Requirement of 1%

- 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 2014/15, determined by the relevant authorities and notified to the Police and Crime Commissioner, are as follows:

<b>Council</b>	<b>Notified Council Tax Base</b>
Durham County	129,047.40
Darlington	30,308.40
Aggregate Council Tax Base	159,355.80

- 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.

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

- A budget of £115,737,252 would result in a 1% increase in Band D Council Tax.

	£	£
<b>PCC's Budget Requirement (based on an increase in Basic Council Tax of 1%)</b>		115,737,252
<b>Less:</b>		
Specific Grant	45,753,834	
Re-distributed Non-Domestic Rates	38,690,297	
Legacy Council Tax Grants	6,110,124	
		90,554,255
		25,182,997
<b>Add:</b>		
Estimated overall net deficit on Collection		
Funds at 31 <sup>st</sup> March 2014		0
<b>Council Tax Requirement</b>		<b>25,182,997</b>

This would mean a council tax of:

$$\frac{\pounds 25,182,997}{159,355.80} = \pounds 158.03$$

- It is recommended that the Council Tax Requirement be set at a level that results in an 1% increase in Band D Council for the year ending 31<sup>st</sup> March 2015 and
  - a. That in determining the Council Tax Requirement, the PCC notes the PCC Chief Finance Officer's report on the robustness of the estimates and the adequacy of reserves and risks in the budget and is attached as Appendix 4.
  - b. The 'council tax base' for the whole of the Force area of County Durham and Darlington will be **159,355.80**.
  - c. The 'basic amount of council tax' be £158.03 and the amount of council tax for each category of dwelling be as follows:

Valuation Band	(Proportion of Basic Amount)	Council Tax 2014/15
		£
A	(6/9)	105.35
B	(7/9)	122.91
C	(8/9)	140.47
D	('basic amount')	158.03
E	(11/9)	193.16
F	(13/9)	228.28
G	(15/9)	263.39
H	(18/9)	316.07

- d. The Budget Requirement be £115,737,252 and that (after taking account of Police Specific Grant of £45,753,834, Re-distributed Non-Domestic Rates of £38,690,297 and Legacy Council Tax Grants of £6,110,124 precepts totalling £25,182,997 be issued to Authorities as follows:

Council	Council Tax Base	Precept (£)
Durham County	129,047.40	20,393,361
Darlington	30,308.40	4,789,636
	<b>159,355.80</b>	<b>25,182,997</b>