Staffordshire County Council

To: All Members and Officers of the Staffordshire Police, Fire and Crime Panel.

DX 712320 Stafford 5

Fax No. (01785) 276219

Please ask for: Helen Phillips
Telephone: (01785) 276135
e-mail: helen.phillips@staffordshire.gov.uk

My Ref: **Your Ref:** **Date:** 21 January 2019

Dear Sir/Madam,

Staffordshire Police, Fire and Crime Panel - Monday, 28th January, 2019

I have recently forwarded to you a copy of the agenda for the next meeting of the Staffordshire Police, Fire and Crime Panel.

I am now able to enclose, for consideration at next Monday, 28th January, 2019 meeting of the Staffordshire Police, Fire and Crime Panel, the following reports that were unavailable when the agenda was printed.

7. **Proposed Police Budget and Precept 2019/20 (Policing Medium Term Financial Strategy)**

Regards

John Tradewell
Secretary to the Panel

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STAFFORDSHIRE POLICE, FIRE AND CRIME PANEL – 28 January 2019

POLICE, FIRE AND CRIME COMMISSIONER FOR STAFFORDSHIRE DRAFT POLICING BUDGET AND PRECEPT 2019/20

Report of the Secretary

The PFCC has submitted his Draft Budget and Precept for consideration by this Panel.

Relevant sections of the Police Reform and Social Responsibility Act 2011 and associated Regulations set out specific powers and duties for this Panel in relation to the Police, Fire and Crime Commissioner's proposed Precept. These are summarised below:

The Police and Crime Panels (Precept and Chief Constable Appointments) Regulations 2012 set out the following timetable for the Panel's consideration of the proposed Policing Precept for 2019/20:

- PFCC to notify Panel of proposed Precept by 1 February 2019
- Panel to review proposed Precept by 8 February 2019

At this point the Panel has to decide whether to support or veto the proposed Precept.

If the Panel supports the Precept:

The Panel has to make a report (including any recommendations) to the PFCC. In turn the PFCC have regard to and respond to the report and publish that response.

If the Panel vetoes the Precept:

NB A veto must be by two-thirds of the **total** membership of the Panel at the time of the veto.

The Panel has to make a report (including a statement that the veto has been exercised).

The PFCC must not issue the proposed precept.

By 15 February 2019 the PFCC must have regard to and respond to the report and must publish that response. The response must include notification of the Precept that the PFCC now proposes to issue.

(If the veto was exercised due to the proposed Precept being too high, the revised version must be lower.

If the veto was exercised due to the proposed Precept being too low, the revised version must be higher)

By 22 February 2019 the Panel must consider and make a report to the PFCC accepting or rejecting the revised Precept and make recommendations including recommendations as to the Precept that should be issued for the financial year.

NB Rejection of the revised Precept by the Panel does not prevent the PFCC from issuing that revised Precept as the Precept for the financial year.

By 1 March 2019 the PFCC must have regard to and respond to the report (including any recommendations) and publish that response.

Once this response is provided and published by the PFCC the scrutiny process ends.

J Tradewell
Secretary to the Panel

Contact Officers

Julie Plant and Helen Phillips

01785 276135/276143

Julie.Plant@staffordshire.gov.uk
Helen.phillips@staffordshire.gov.uk

Report to the Police Fire and Crime Panel – 28th January 2019

Policing Medium Term Financial Strategy

Report of the Staffordshire Commissioner

Introduction

The purpose of this report is to set out the proposed budget and precept proposals for the Police and Crime element of the Commissioner's portfolio for 2019/20. It is the third such report for the Staffordshire Commissioner in his second term in office since May 2016. It will deliver one of the Commissioner's key responsibilities under the Police Reform and Social Responsibility Act 2011.

The report sets out the following:

- Net policing budget requirement for 2019/20
- Proposed precept for the policing element of the council tax 2019/20
- Proposed Policing Medium Term Financial Strategy (MTFS)
- Outline Policing Capital Budget

The report should be read in conjunction with the accompanying:

- Treasury Management Strategy
- Reserves strategy
- Capital strategy

Recommendations

The Police, Fire and Crime Panel is asked to:

a) Examine the information presented in this report, including:

- The Total 2019/20 Policing net budget requirement of £196,994M, including
- A council tax requirement for Policing for 2019/20 of £75,056M before collection fund surplus/deficits are taken into account.

b) Note that any changes required by a government grant alteration as notified through the final settlement or through amended council tax base and / surplus/deficit notifications received from the collecting authorities will be balanced through a reduction in proposed investment.

c) Support the proposal to increase the 2019/20 precept for the policing element of the council tax bill by 12.46% or £24.00 per annum which is £2.00 per month, increasing the council tax to £216.56 for a Band D Property.

d) Support the Commissioner's use of additional funds to provide investment for the Chief Constable to deliver on key priorities, including local and neighbourhood policing.

e) Support the savings proposals offered by the Commissioner and Chief Constable to make better use of the base budget (Appendix 5).

f) Support the proposed Capital Investment Programme to deliver improved productivity and efficiencies to enhance policing, community safety and services to victims.(Appendix 6)

Matthew Ellis
Staffordshire Commissioner

Contact Officer: Jane Heppel
Telephone: 01785 232449
Email: jane.heppel@staffordshire-pfcc.pnn.gov.uk

1. Executive Summary

1.1 This report, and the Council Tax precept proposal within it, is the result of considerable work by the Staffordshire Commissioner's Office, supported by Force colleagues and taking into account public and stakeholder consultation and key government announcements.

1.2 Following the announcement of the council tax referendum levels and provisional Police Grant settlement by Government, the Commissioner has considered current and future funding requirements, together with the factors included within his Police and Crime Plan, the results of the survey with local residents, as well as actual and expected cost pressures and expected efficiency savings available to the Force and to his own office.

1.3 The Commissioner has understood the current and emerging operational challenges, both nationally, regionally and locally, with particular reference to those areas included within the Force's Strategic Assessment.

1.4 The Commissioner has taken into account the adequacy and level of reserves and the impact of future financial challenges and opportunities in the MTFS. Since coming into office he has maintained a position to keep reserves at a minimum safe level and is constantly reviewing that position. This paper is accompanied by a revised Reserves Strategy.

1.5 The Commissioner was the first to call on Government for the flexibility to be provided to increase the policing element of the Council Tax bill. He strongly believes that this brings more transparency and accountability on the need for any additional funding and how that will be used.

1.6 The Commissioner is the first in the country to be part of a business rates pilot scheme as both a Fire and Rescue and Police and Crime Commissioner. This will bring an additional £200,000 into the budget for 2019/20 and the Deputy Commissioner will be bringing forward a proposal to spend this money effectively to protect emerging businesses from crime.

1.7 After careful consideration of all of these aspects the Commissioner is proposing a precept increase of £24.00 from April 2019. The proposed precept enables the Commissioner to provide an increase in funding of £9.299M in 2019/20 in order to build a sustainable base budget, maintain and safeguard policing and community safety services across Staffordshire and Stoke on Trent, and make additional investment in his Police and Crime Plan.

1.8 Any new investment will focus on:

- increased visibility in neighbourhood policing;
- reduced repeat offending and victimisation;
- greater public satisfaction;
- increased resilience towards the crime and terror threats;
- reduction in those serious killed or injured on our roads network;
- enhanced use of digital technology in policing creating a reduction in administrative processing by officers;
- increased community-based projects to prevent and address crime /

anti-social behaviour and support victims

1.9 The Commissioner will continue to support the Chief Constable to develop the Staffordshire Police Transformation programme (SP25) and has committed to ensuring that the pace of the capital programme and achievement of capital receipts will support this, through new IT platforms and Estate. These include the implementation of a Core Policing IT Platform, with development having already started in the current financial year. This paper is accompanied by a revised Capital Strategy and Treasury Management Strategy which explain how this investment will be targeted and afforded.

1.10 The consultation with residents through the residents online survey gained 91% support for increased investment in Policing. In addition in a recent MORI poll 58% of respondents identified 'the level of crime' as being important in terms of making somewhere a good place to live with 20% of respondents saying that this needed improving.

1.11 The Commissioner recognises that there are still financial challenges faced over the coming three years in order to meet the increasing demand for police services and uncertainty as a result of the Comprehensive Spending Review and would welcome a three year settlement from government to assist with planning for critical service delivery.

1.12 If the proposals in this document are supported then Policing will have the following funding available in 2019/20.

Table 1 Net Budget Requirement Comparison 2017/18 to 2019/20

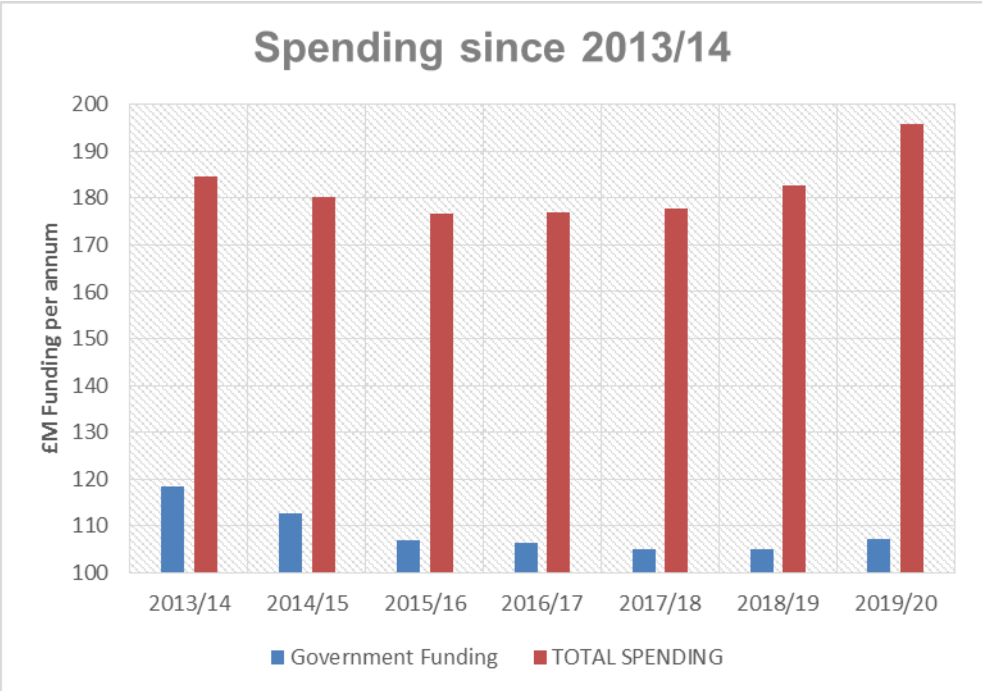
Funding Source	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**
Home Office Police Grant	104,936	104,936	107,139
Police Pension Grant			1,825
Revenue Support Grant	8,423	8,423	8,423
Council Tax Freeze Grant	3,541	3,541	3,541
Home Office Funding	**116,900**	**116,900**	**120,928**
Precept	60,838	65,757	75,056
Council Tax Collection Fund Surplus	855	792	1,010
Total	**178,593**	**183,449**	**196,994**
Staffordshire Commissioner	8,334	9,411	9,160
Staffordshire Police Force	168,816	172,356	180,607
Capital Financing	4,617	5,427	5,492
Other Sources of Funding	(3,174)	(3,746)	1,734
Total	**178,593**	**183,449**	**196,994**

The detailed budgets are shown in Appendix 1 and sections 8, 9 and 10 explain the base pressures, savings proposals and planned investments.

Table 2 Summary of 2019/20 Budget Build Up

2019/20 Budget Build Up	**Force**	**Commissioner**	**Capital Financing**	**Funding**	**TOTAL**
Revised Budget 2018/19	172,356	9,411	5,427	(3,746)	183,448
Base Pressures (Section 8)	11,515	103	65	4,486	16,169
Savings (Section 9 and Appendix 5)	(5,010)	(595)	0	0	(5,605)
Savings - Jt Governance (Section 9, Appx 5)	(458)	(148)	0	0	(606)
Investments (Section 10)	2,205	389	0	994	3,588
2019/20 BUDGET	**180,608**	**9,160**	**5,492**	**1,734**	**196,994**

1.13 The proposal will see a cash investment at higher levels than at any time since the Commissioner was elected in 2013 despite a cash cut of 9.5% from central government over this time period. In real terms this is a 22.4% cut in support from central government. However there are still savings and efficiencies to be delivered in order to make funds available to reinvest into new ways of working.



2. The Budget Process

2.1 The 2019/20 budgeting round continues to use a risk-based approach to budget setting which has sought to align the budget process with identified strategic operational priorities and risks.

2.2 The Commissioner and the Force have considered key corporate risks when setting the budget. Essentially these risks are operational and organisational around managing people, infrastructure assets, information, commissioning etc.

2.3 The Force continues to identify its Strategic Operational Risks as part of the National Intelligence Model (NIM). This has been used to inform resourcing strategies at both Directorate and Departmental Level.

2.4 Each year, the Force undertakes a major exercise to review its operational risks which are set out within the “Force Strategic Policing Assessment”. The purpose of this work is to identify those areas of greatest risk. Essentially a high risk area is where only limited resources had been allocated to address a substantial risk, i.e. this creates a significant risk gap.

2.5 The latest MTFS and, in particular, the 2019/20 budget contained within this report aligns the Force and Commissioner’s financial resources to risk and therefore is fundamental to the performance management of Staffordshire Police.

2.6 The Commissioner’s Director of Finance has worked closely with the Force finance team throughout the year during the budget monitoring process and in preparation of the revenue and capital budgets for 2019/20. In respect of the budget, this has included (but was not limited to), the identification and agreement of assumptions and methodology and challenge and scrutiny of the budget workings.

2.7 The Commissioner and his management team have held regular discussions with the Chief Constable and his Chief Officers throughout the year and during the budget preparation process and the announcement and interpretation of the settlement.

2.8 These discussions have culminated in a number of full and robust discussions of the budget requirement, the right sizing and funding of the capital programme, national and local operational and financial challenges, the precept options available to the Commissioner and a review of the MTFS and associated risks.

2.9 Furthermore, there has been a significant degree of scrutiny and challenge undertaken by the Commissioner and his team, prior to, during and post the Strategic Governance Board on the 18th January, culminating in final discussions on the policing budget and decision on precept by the Commissioner.

3. Precept Strategy and 2019/20 Proposal

3.1 The 2019/20 precept increase is only the third proposed by the Commissioner since 2013/14. For the period 2013/14 to 2016/17, the Commissioner maintained council tax levels at the same level as in 2012/13. His view had been that efficiencies should be delivered within policing and community safety before he would consider asking council taxpayers for more. The rise was then 1.99% in 2017/18 and 6.29% or £11.40 in 2018/19. The Commissioner has used his reserves before asking the public for a further contribution in council tax.

3.2 During the period since his first election the Commissioner has set the lowest council tax increases for police and crime in the country: the overall rise to 2018/19 was just 8.4%, the national average for the period was 17.5% and the highest increase across the period was 31.8%. The proposed increase of 12.46% whilst significant for those paying it, has to be seen in this context.

3.3 The draft Council Tax Referendum Principles for 2019/20[1] confirm that PCCs can increase the policing element of Council Tax by what they consider necessary, but that the maximum increase before a referendum is required is now £24.

3.4 The Commissioner regularly engages with local residents and stakeholders on a wide range of matters. In relation to the precept, the recent consultation, undertaken between 24 December 2018 and 11 January 2019 showed that 91% of those who responded would support an increase in investment in policing.

3.5 The Commissioner has listened to this feedback and has outlined his intention to increase funding in the coming year by £24.00, which will provide some additional investment to the Chief Constable as well as ensuring that all cost pressure are met. Resources will be targeted towards community safety and delivering the priorities outlined in his Safer, Fairer, United Communities Strategy.

3.6 The table below illustrates the financial impact of the policing element of the precept changes on the Council Band D rate and increase in funding for Staffordshire Police.

Table 3 – Precept Increase 2017/18 to 2019/20

Council Tax (Police Element)	2017/18	2018/19	2019/20
Band D Council Tax Proposed	£ 181.16	£ 192.56	£ 216.56
Increase on Prior Year	£ 3.55	£ 11.40	£ 24.00
Percentage increase on Prior Year	1.99%	6.29%	12.46%
Council Tax Increase	£ 1,192,064	£ 3,892,934	£ 8,317,925
Total Precept Levied	£ 60,832,222	£65,756,587	£ 75,055,560

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/670392/Draft_2018-19_principles_report_for_provisional_settlement.pdf

3.7 The increase in Council Tax funding also takes into account the actual tax base increases for 2019/20 (1.49%) for Staffordshire and Stoke on Trent when calculating the financial impact of the precept flexibility.

3.8 The proposed Council Tax increase will result in the following banding:

Precept by Band	Apportionment	Annual	
Band A	6/9	£	144.37
Band B	7/9	£	168.44
Band C	8/9	£	192.50
Band D	9/9	£	216.56
Band E	11/9	£	264.68
Band F	13/9	£	312.81
Band G	15/9	£	360.93
Band H	18/9	£	433.12

And the following Council Tax contributions in these areas across Staffordshire and Stoke on Trent:

Council Tax contribution and collection fund by District	Council Tax £000	Collection Fund Surplus / (Deficit) £000
Cannock Chase	6,253	53
East Staffordshire	8,073	88
Lichfield	8,232	26
Newcastle	8,038	231
South Staffordshire	8,249	108
Stafford	10,285	-
Staffordshire Moorlands	7,166	71
Tamworth	4,713	70
Stoke City Council	14,048	363
TOTAL	**75,056**	**1,010**

3.9 The move towards relying on Council Tax to support Police Funding will, we anticipate, result in Council Tax providing 41% of funding by the end of 2022/23, a rise from 36% at the start of the period.

4. National Picture and Grant Settlement

4.1 On the 13th December 2018, the Government announced the Provisional 2019/20 Police Finance Settlement.

4.2 In relation to the Police funding formula, which had been due to be communicated in 2017/18, then the Minister has stated that any review of the Formula will not be revisited until the next spending review which is expected to occur before the provisional finance settlement in 2020/21.

4.3 In addition to the change in precept principles, the Minister confirmed an increase for the main Police Grant of £161M and an increase of £153M in order to meet the additional cost of Police Pensions.

4.4 Since 2014/15, Commissioners have received their core policing funding from the Home Office which subsumed the former DCLG grants (including previous funding from Business Rates).

4.5 The table below confirms the Home Office funding arrangements for 2019/20 for Staffordshire.

Table 4 – Home Office Funding to Staffordshire

Funding Source	**2018/19 £000**	**2019/20 £000**
Home Office Police Grant	104,936	107,139
Revenue Support Grant	8,423	8,423
Council Tax Freeze Grant	3,541	3,541
Specific Pensions Grant		1,825
Home Office Funding for Staffordshire Police	**116,900**	**120,928**

4.6 The Police and Crime Commissioners Treasurers Society (PACCTS) have advised that reallocations (top slicing) have been simplified to enable easier year on year comparisons. In 2019/20 reallocations total £1.029Bn, 27% more than the 2017/18 equivalent. However this has had no effect on the core policing grant for the years up to 2019/20, as the Home Office has reallocated its overall budget to enable this increase.

4.7 The national reallocations elements are detailed further as follows:

Table 5 Top Slice from Home Office

Top Slice	**2017/18 £(m)**	**2018/19 (£m)**	**2019/20 (£m)**
PFI	73	73	73
Police Technology Programmes	417	495	495
Arm's Length Bodies	54	63	63
Strengthening the response to Organised Crime	28	42	90
Top ups to NCA and ROCUs			56
Police Transformation Fund	175	175	175
Special Grant	50	93	73
Pre-charge Bail	15	4	4
Total	**812**	**945**	**1,029**

4.8 The key issues in relation to the settlement and top slice elements include the following:

- Counter terrorism (CT) funding is negotiated separately to the police settlement, therefore, increases should not impact on the rest of the Police settlement. In the Autumn budget the Chancellor announced an additional £160m for CT but in terms of a year on year increase the figure is just £59m, representing an 8% rise in CT funding between 2018/19 and 2019/20.

- The Police Transformation Fund (PTF) for 2019/20 has remained the same, in cash terms, as 2017/18 at £175m. PACCTS have advised that future allocations from the PTF will be for commissioned work rather than bids.

- The Police Technology Programme has a budget for 2019/20 of £495m, which is the same as 2018/19 but remains an increase of £78m on 2017/18 funding.

- Arms-Length Bodies include Her Majesty's Inspectorate (HMI), Gangmasters and the Independent Office for Police Conduct, which replaces the Independent Police Complaints Commission (IPCC).

- Police Technology Programmes include ESN, existing Airwave System, Home Office Biometrics and the National Law Enforcement Database.

4.9 Whilst the total value of the national reallocations for 2019/20 is known, there does remain a level of uncertainty about the impact on the Police Grant of top slices (which are anticipated to increase). This presents risks to the future funding, materially in the case of future funding for ROCUs and the ESN (Emergency Services Network) programme.

5. The Medium Term Financial Strategy

The Medium Term Financial Strategy has been updated as follows and is shown in detail in Appendix 3:

Table 6 – Medium Term Financial Strategy 2019/20 to 2022/23

Funding Source	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**
Home Office Police Grant	107,139	107,139	107,139	107,139
Police Pension Grant	1,825	1,825	1,825	1,825
Revenue Support Grant	8,423	8,423	8,423	8,423
Council Tax Freeze Grant	3,541	3,541	3,541	3,541
Home Office Funding for Staffordshire Police	**120,928**	**120,928**	**120,928**	**120,928**
Precept	75,056	78,305	81,694	85,231
Council Tax Collection Fund Surplus	1,010	886	886	886
Total	**196,994**	**200,119**	**203,508**	**207,045**
Staffordshire Commissioner	9,160	9,264	9,291	9,318
Staffordshire Police Force	180,607	184,216	189,078	194,343
Capital Financing	5,492	5,929	6,126	8,023
Other Sources of Funding	1,734	710	-988	-4,640
Total	**196,994**	**200,119**	**203,508**	**207,045**

5.1 The MTFS is an important document in the overall financial framework of the Commissioner's planning. It builds on the budget proposed for 2018/19 and incorporates plans to meet changes in available financing with the need to meet current and future commitments.

5.2 It is a requirement that the Police and Crime Plan must cover the period until the end of the financial year of the next Commissioner election in May 2020 however it is prudent to prepare a medium term financial strategy over a longer period than this and therefore the report focusses on a four year timeline.

5.3 The MTFS presented to the Police and Crime Panel in January 2018 identified a funding gap over the MTFS period.

5.4 The latest MTFS position for the period to 2020/21 indicates that this funding gap has been resolved, with the expectation of balanced budgets for the remaining term of the Commissioner's office. The main drivers of this is the combination of the increased precept opportunity and work to ensure that the Change Programme will deliver the required savings. Appendix 4 describes the changes between the January 2018 and January 2019 MTFS.

5.5 The MTFS is based on safe delivery of a number of savings relating to the SP25 Change Programme and the recent internal audit on the Change Programme controls and governance arrangements provided a 'positive assurance', along with strong focus in both the Commissioner and Force senior management team to ensure timely delivery.

5.6 The MTFS includes a number of key assumptions covering likely funding levels, inflationary increases and expenditure items. These include the following:

- That the core policing grant would stay cash flat for the next three years.
- That the council tax base (and therefore, the precept) grows at 1.3% per

annum (source: prudent estimate based on the local position over the last five years). This is in line with the 1.34% assumed by the Home Office nationally.

- Pay Increases are assumed at 2% until 2020/21, based on the advice of PACCTS, following the funding settlement announcement.

- Non staff inflation are based upon the rates for the Consumer Price Index (CPI), as projected by the Office for Budget Responsibility (OBR) or where known the contract or specific inflation sum.

5.7 It is expected that there will be more clarity provided by the Home Office for the years after 2019/20 in terms of funding arrangements.

6. Assumptions and Sensitivity Analysis

6.1 All assumptions in the MTFS are subject to change however they are useful in establishing the general size of the underlying pressures in the budget.

6.2 The updated MTFS presented in this report has been constructed using the following assumptions:

Table 7: Assumptions

Description	**2018/19 Budgeted**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
Police Officers					
Pay Award	2.0%	2.0%	2.0%	2.0%	2.0%
Incremental uplift	1.0%	1.0%	1.0%	1.0%	1.0%
Pension Contribution	24.2%	31.0%	31.0%	31.0%	31.0%
Police Staff					
Pay Award	2.0%	2.0%	2.0%	2.0%	2.0%
Incremental uplift	1.0%	1.0%	1.0%	1.0%	1.0%
Pension Contribution	15.5%	15.5%	15.5%	15.5%	15.5%
Non Staff Inflation					
General (Including Rates)	2.0%	2.0%	2.0%	2.0%	2.0%
Utilities - Gas/Electric	5.0%	10.0%	10.0%	10.0%	10.0%
Fuel	5.0%	3.2%	3.2%	3.2%	3.2%
Estates Contract	0.0%	0.0%	0.0%	0.0%	0.0%
IT Contract	0.0%	0.0%	0.0%	0.0%	0.0%
Insurances	2.0%	10.0%	10.0%	10.0%	10.0%
Funding					
Government Funding	0.0%	2.1%	0.0%	0.0%	0.0%
Council Tax Base Increase	1.70%	1.49%	1.30%	1.30%	1.30%
Variable Income Charges	0.0%	2.0%	2.0%	2.0%	2.0%
Council Tax Precept Increase	6.29%	12.46%	2.99%	2.99%	2.99%
Collection Fund Surplus £000	792	1,010	886	886	886

6.3 This does not commit the Commissioner to any course of action however these assumptions must be viewed as being more likely than any others which is why they have been selected.

6.4 We have cross referenced our assumptions on inflation with those of the County and believe they are consistent.

6.5 The taxbase forecasts are a prudent average of the past 5 years although the current and future level of housebuilding may make a significant impact in terms of the total council tax collected.

6.6 Sensitivity analysis on the assumptions

Table 8: Sensitivity Analysis on Assumptions

Cost Area	**Change**	**(£ +/-) 000**
Police Pay	1%	913
PCSO/Police Staff	1%	522
Utilities	1%	41
Vehicle costs	1%	21
Supplies & Services	1%	91
Police Pension Contribution	1%	913
Police Core Grant Funding	1%	1,191
Precept	£1	347
Council Taxbase	1%	751

7. Risks and Sensitivity Analysis

7.1 In reflecting on where and whether investments are appropriate in 2019/20 the Commissioner will also reflect on the development of risks within the environment and respond to the monitoring of those risks.

7.2 The biggest risk to funding is the comprehensive spending review and formula funding review which taken together make the forecasting of central government funding fundamentally uncertain for the medium term planning period. Government have said that they remain committed to CSR but this is within the context of overall plans that funding to non-NHS departments will fall. Therefore whilst we are planning for a cash flat scenario it is possible that government grants will fall in line with Treasury DEL forecasts.

7.3 Brexit may affect the Force both in terms of the Policing model and in terms of activity levels. This may impact on the availability of international facilities and support available to the Policing model in the UK: particularly important in the context of crime where offenders and victims do not need to be in the same place such as online CSE. The Force is actively planning and preparing for the implications for demand within the framework of the Local Resilience Forum and regional and national preparations taking place within the policing sector.

Where significant demands arise elsewhere in the region or the UK, there would be a requirement to provide officers under the Strategic Policing Requirement for which the Force is ensuring its readiness. Whilst it clearly cannot be predicted at this time, the potential impact that this would have on local policing services and the subsequent additional cost of maintaining them should be noted.

7.4 The full impact of costs and funding arrangements for the new National Emergency Services Network (ESN) are still unknown. The project, which sits with the Home Office has slipped by an estimated 15 months behind schedule. This delay means that forces may need to extend their Airwave contracts, which is likely to have associated costs in addition to the delayed savings expected from ESN.

7.5 Home Office charges and NPAS charges are also being reviewed and this may create a change in the formula which changes cost independently of attempts to manage usage. This comes alongside the need to upgrade our old IT estate and explore means of paying for it which is more sustainable than borrowing.

7.6 Demand mix and volumes in future are likely to be effected by some predictable events such as the Commonwealth Games but also in some unpredictable ways e.g. developments at Mill Green and the new rail hub creating a change in the pattern of demand for policing. After England's success in the last world cup the future costs of the world cup may need to also feature in delivery plans for 2022.

7.7 There is a risk that Police demand increases as other local partners withdrawing from preventative work and support for vulnerable adults. A LGIU report published in September 2018 notes that "Perhaps surprisingly, only 24% of incidents responded to in 2016-17 were crime related. A further 12% were to incidents of anti-social behaviour, but the remaining 64% were non-crime related, the police often attending when other agencies were unable to do so."

7.8 A significant number of our responsibilities for organised crime have transferred to the ROCU but this service is significantly supported by grant funding which will drop out in 2021/22 and 2022/23. West Midlands Police who lead in this area are preparing a MTFS for the service which should enable us to more clearly determine the impact on this on our own funding and capabilities.

7.9 As we have outsourced a significant amount of enabling service function in the Estates and IT areas of work, we become exposed to the risk that we are not able to drive out value for money on those contracts. This creates a financial risk that contract prices cannot be contained within expected limits.

7.10 Nationally policing twice moved to 'critical' in response to terrorist activity in 2017; Staffordshire found it challenging to maintain normal operational activity alongside the heightened policing presence required as part of 'Operation Temperer'. Armed Policing has seen an uplift in Authorised Firearms Officers (AFOs).

7.11 The Force faces increased staff pension costs, relating to meeting past service deficit costs. This cost arose following the triannual actuarial assessment of the Staffordshire Local Government Pension Fund in 2016 and a further review is due in 2019.

7.12 The Force also faces increase officer pension contribution rates as a result of decision taken by the Treasury and OBR to decrease the discount rate. Whilst this has been funded in 2019/20 the risk is that this funding is removed in the Comprehensive Spending Review.

7.13 The affordability of the capital programme, which is fundamental to the delivery of SP25, and at the core of the Policing Plan, is dependent on achieving funding through the release of capital receipts. However the Commissioner will encourage the use of alternative sources of funding such as external grants to ensure that Staffordshire money is used only where other alternatives have been thoroughly researched.

7.14 Sensitivity analysis on the risks

Table 9: Sensitivity Analysis on Risks

Risks	**Change**	**(£ +/-) 000**
ROCU Contribution	1%	39
Major Contracted Areas	1%	109
NPAS Contribution	1%	3
Incident such as terror threat (2017)	1%	1,970

7.15 These risks, challenges and uncertainties are under regular review and steps are already in place to mitigate these including:

- OPCC oversight to ensure continued rigour and commitment takes place in meeting and identifying savings and efficiencies, at a regional and local level. This oversight includes attendance by the OPCC at the Force Strategy Board to ensure scrutiny, challenge and full consideration of change and savings proposals.

- Regular review and scrutiny of the Capital Programme and the Treasury Management Strategy.

- Actively contributing to the actuarial reviews of all schemes to ensure that pension contributions are challenged and fairly represent the need to provide service today as well as the need to provide for pensions tomorrow

- Reviewing potential opportunities for collaboration with other Commissioners and Chief Constables in the regional network, which the Staffordshire Commissioner chairs. The governance framework has been strengthened so that key decisions around budgeting and operational requirements are aligned to agreed priorities and objectives and have been costed appropriately in tandem with Commissioner budgets.

- Regular monitoring to ensure that budgets are being used in accordance with agreed activities, with slippages monitored and challenged, so that the Force operates within the funding provided by the PCC.

8. Base Pressures recognised in 2019/20 Budget

8.1 Although the additional council tax precept funding of £9.229M is considerable, the base pressures in the budget total £16.169M, £12.141M after the increase in grant from the Home Office is taken into account. Appendix 1 shows the change in funding in detail.

Table 10: Base Pressures in the 2019/20 Budget

	Base Pressures	Service Pressures	Staffing	Inflation	Efficiency Savings	TOTAL
Force	3,818	3,408	3,711	675	(98)	**11,514**
Commissioner	(2)	80	55	0	(30)	**103**
	3,816	**3,488**	**3,766**	**675**	**(128)**	**11,617**

8.2 To provide stability in the base, pressures have been recognised to allow provisions to be made which in future will smooth the cost of uneven expenditure. Historically the Force has relied upon its insurance reserve to fund in year costs. With this reserve now depleted it is necessary to provide in year for these costs. Further budget provision is also required to recognise the increases in both the number of and actuarial cost of ill health retirements

8.3 A thorough review of service pressures has been undertaken through a new business partnering approach in Force which is realigning the responsibility and accountability for budget monitoring along departmental lines. This has identified a number of service pressures, benefting from the local knowledge now being applied to budget monitoring. There are also national pressures such as the need to allow for higher forensics prices due to market instability.

8.4 The impact of the decision by central government to increase the contribution rate paid by local budgets towards the cost of Police Pensions is a major factor in the staffing uplift, adding £4.027M to costs in the coming year. However this is masked in the above figures by a one off benefit in the reduced cost of new officers joining in large numbers and replacing retiring officers at the top of scale.

8.5 Inflation is a normal cost of running any organisation, and the MTFS makes allowance for this. Further inflationary pressures arise from contractually agreed inflation as well as rises in commodity costs such as Gas, Electricity, Water and Fuel.

8.6 Minor efficiency savings have been identified prior to a savings programme being developed which identifies those items which require action to ensure that savings are delivered, and which will be monitored closely in year.

Table 11: Addressing Budget Resilience

	Revised Budget	Known Ongoing Pressure	Increase	2019/20 Budget
	£000's	£000's	£000's	£000's
Funding Adjustments				
Reserve Transfers	(831)	831	1,300	1,300
Use of capital receipts	(2,056)	2,056	0	0
Recharge direct to capital	(146)	146	(560)	(560)
Unallocated (Savings)/Investment	(713)	713	0	0
TOTAL	**(3,746)**	**3,746**	**740**	**740**

8.7 In addition to the base pressures in the service budgets there has been a reliance on the use of reserves and on the flexibility of using capital receipts to pay for Transformation costs. This was in order that the Commissioner could ensure that he was not taking the public's money before he had used all available historical sources of funding.

8.8 The additional precept has given the opportunity to replace this funding in the base thereby preserving core spending on service delivery.

8.9 £1.3M has been provided to meet the need in the reserves strategy to start the year with 3% of net budget requirement available in reserves in order to ensure that a minimum of 2% should be available to cover emergencies during the year.

9. Savings Proposals

9.1 Without meeting the savings targets proposed by the Force and OPCC there would be no available investment opportunity even with the increased precept.

Appendix 5 contains the details of the proposed savings

Table 12: Savings Proposals 2019/20

2019/20 Savings Proposals	Force £000	Commissioner £000
Efficiency	1,124	30
Fire Governance	458	148
Income	122	0
Redesign	2,591	376
Cut	1,173	189
TOTAL	**5,468**	**743**

9.2 Many of the savings being proposed under the 'Efficiency' and 'Redesign' targets are sourced from the SP25 Transformation Programme for the Police Force. Over the last year and the coming two years alongside the delivery of the Niche Record Management and Core Policing Platform the programme will deliver a more effective police service, at a lower cost. The savings are set out in the Outline Business Case.

9.3 The confidence around the Force's capability to deliver these financial commitments in both 2018/19 and future years is underpinned by the new governance framework in place. This is made up of the Force's Strategy Board, which provides assurance on progress with the SP25 programme, as well as other Force operational and strategic areas. OPCC management representatives also attend these meetings and provide 'check and challenge' on progress and report back to the Commissioner.

9.4 In addition the internal audit strategy focusses on the development of the savings programme from identification of opportunities through management and reporting in order to provide assurance that the means of managing and delivering savings are in place.

9.5 The Savings Proposals can be split into four key themes

Finding Efficiencies in new ways of working

- Investing in new IT systems that will make tasks easier and less manually intensive, provide police officers with the right tools to do their job and provide the general public with different ways to contact and engage with the police
- Further reducing management costs by reducing layers wherever possible and ensuring a limited or negligible impact on services being provided.
- Buying goods and services more efficiently, making sure that value for money is achieved – a good example is making sure that new mobile phone subscriptions are taken advantage of or making sure that electricity, gas and water use in buildings is managed well.
- Not doing some things that may have been done in the past, because evidence shows that outcomes are not achieved – a good example is in using forensic techniques that generally don't result in a successful criminal conviction.

Improving the way we use expensive resources i.e. assets and buildings.

- Managing the balance of buildings and people differently, so there is less reliance on buildings and more on officers on the ground – a good example is reducing the number of police stations the general public can access directly, but providing more online access to services and improving telephone contact.
- Locating police officers, fire and rescue staff and others in buildings owned by other partners, so working together is made easier and there is convenience to the general public in accessing services.
- Selling excess properties so that income for investment increases and the costs of maintaining buildings, such as business rates, decrease.

- Making sure the fleet of police cars and other vehicles is reviewed to match the Staffordshire Police operating model that was implemented in 2018.

Making the joint governance with the fire and rescue service a focus in terms of driving savings.

- The coming together of those teams that support frontline services, so that one team supports the two service areas. This will mean that HR, Finance, IT, Procurement and other specialist ‘enabling’ staff work on both police and fire workload.
- Making best use of the joint estate across police and fire services.
- Saving on Fire and Rescue Authority arrangements

Targeting what we do and doing less of it.

- Reviewing and reducing community safety budgets where better outcomes can be achieved in more efficient ways – a good example is combining the money that the Commissioner, City and County councils spend on domestic abuse support services and retendering services to achieve better outcomes.
- Reducing spend on running costs such as travel, printing and stationary, information technology consumables, postage, communication budgets etc.through better targeting.
- Reducing commitments to fund services, or partner organisations where there are greater priorities elsewhere. This could include ceasing the part funding of certain posts, or the support of some lower-level local priorities.
- Renewing governance structures for community safety partnerships so that together with key partners funding can be better matched to strategic priorities.

10. Investment Proposals

10.1 Last year the Commissioner raised the precept by £11.40 and in doing so promised to invest in front line policing numbers to provide much needed resilience in the neighbourhood and local policing. The promise was for 44 FTE officers in the first year and 25 FTE in the coming year. The Chief Constable's recruitment plans have been developed in order to meet this commitment and resulted in recruiting 28 by March 2019, 25 in June 2019 and the remainder as promised by March 2020.

10.2 There has been some slippage in delivery on these targets because recruitment to officer roles is an extensive and thorough process that takes time, and sometimes there are issues with the required clearances which prevent a full cohort from starting. In addition the need to deliver training through the new PCDA curriculum has led to a delay in recruitment of which the Commissioner was kept informed and agreed to during the year.

10.3 The Police and Crime Plan forms the framework for further investment in Police and Crime overall.

The key themes of the plan are:

Modern Policing
"A police force that is fit for a changing future."

Early intervention
"Identifying and tackling root causes at the earliest opportunity."

Supporting Victims and Witnesses
"Making it easier for victims and witnesses to get the support they need, when they need it."

Managing Offenders
"Preventing offending in the first place and reducing reoffending."

Public Confidence
"Creating opportunities for communities to shape policing, with greater transparency and openness to increase confidence in policing."

Further investment in delivering these themes is now possible in 2019/20 with the increased precept. Some of these are fully developed and costed and included in the budgets shown at Appendix 1. Others are being developed but cautiously until the funding for 2020/21 is more certain. This section lists the opportunities being reviewed.

Table 13: Investment Proposals

Investment Proposals	2019/20 £000	2020/21 £000
Staffordshire Commissioner:		
Drug and Alcohol Support	250	250
Commissioning	139	139
Business Crime	200	
Business Rates Pilot Income	(200)	
Subtotal Commissioner (Appx 1)	**389**	**389**
Staffordshire Police Force:		
Single On Line Home	80	80
Control Room	400	400
Firearms Training	100	100
New Policing Model	750	750
25 FTE Officers (2018/19)	875	901
Subtotal Force (Appx 1)	**2,205**	**2,231**
Additional Investment	994	270
Total	**3,588**	**2,890**

Investments by the Commissioner

Managing Offenders

10.4 In Staffordshire and Stoke-on-Trent, the police service is increasingly stretched in dealing with complex societal problems such as domestic abuse, missing persons, mental health, sexual offences and substance abuse. These problems are not easy to solve and not solely a policing problem. The answers are far more about partners working together and all contributing to address the root causes of offending, the particular issues around the victim, the offender, the family and the vulnerable child or adult.

10.5 This need to work together is made increasingly difficult as partners, such as local authorities and the NHS, reduce their resources and change their focus to maintaining core services and managing acute problems. This sometimes results in additional demands being placed on the police, which is often the service of last resort for people to access.

10.6 The Commissioner has been working with local partners to scope a new service to support those with drug and alcohol dependencies and divert them from crime. He will invest interventions supporting those entering the criminal justice system to address their substance misuse issues to help prevent re-offending in order to ensure that the workload of the police is not about dealing with preventable problems.

Public Confidence

10.7 In addition the Locality Plans that the Commissioner delivers with partners are in need of redevelopment to cover services for the types of victim and witness which are not covered by Ministry of Justice grants such as Antisocial Behaviour. There are also identified gaps in services for vulnerable young people, in respect of becoming criminalised via gangs / county lines. The Commissioner will refocus the money which goes through this area.

Supporting Victims and Witnesses

10.8 The Commissioner will use the money from Staffordshire's Business Rates Pilot to engage with businesses and work with them to establish a support mechanism that protects and supports new businesses. The pilot scheme is the first in the Country to include a Police and Crime Commissioner and this gives us a valuable opportunity to show that community policing is an activity which directly supports business growth.

<u>Investments by the Police Force</u>

Modern Policing

10.9 The police nationally and locally are seeing increases in calls for service incidents and some types of crime. The changing nature and increased complexity of that demand has required new, innovative solutions and very different approaches. By investing in Single On Line Home which is a new online service for the public to be able to report crimes and follow the progress on investigations, as well as the Control Room, the Force will strengthen their ability to respond appropriately to those affected by crime.

10.10 Firearms training is essential in order to be able to expand the number of officers who are able to respond in this way to incidents if needed. This will not increase the number of officers who carry weapons but it will ensure that the capacity in this area is continued, and that the new officers joining the Force have an opportunity to go on this key training over time.

Early Intervention

10.11 One area of vulnerability concerns people missing from home, with the force responding to almost 5000 reports of missing people last year, an increase of 13%. A pilot programme to establish a dedicated team of officers and staff investigators to work with colleagues in Response and Neighbourhood Policing Teams to locate missing people quickly and efficiently is showing early successes. This approach helps to reduce risk and prevent harm as well as enabling a better service to vulnerable people to tackle root causes, provide the right support (which may be from other agencies) and reduce the likelihood of escalation, repeat vulnerability and crises.

Public Confidence

10.12 Visible, accountable policing is central to public confidence and the force is committed to responding to the needs of local communities as effectively as possible. In particular, there is a focus on making the roads safer for the people of Staffordshire and those commuting or passing through it.

10.13 Previous investment has enabled the force to extend the work of the Central Motorway Policing Group (CMPG) to cover the A500 and develop its approach across the force with a new roads policing and road safety plan, plus governance structure. This focuses on reducing those killed or seriously injured (KSI) on the roads and the disruption and deterrence of criminals' use of the roads to reduce crime and disorder.

10.14 Further investment will help to develop a dedicated roads policing capability so that the Force can do even more to reduce casualties by tackling KSI hotspots, addressing poor driver behaviour and focusing on enforcement. The force will target offenders using all available information and intelligence, particularly that coming from ANPR cameras; helping the fight against cross-border offending including organised crime groups and those involved in County Lines, and helping to achieve better outcomes for victims and vulnerable road users. This team will also test new drone technology, as it shows great promise in allowing officers to gain vital information, quickly and safely at a variety of crime scenes from firearms incidents to road traffic collisions.

10.15 The Force will also strengthen its work with Staffordshire's Safer Roads Partnership and CMPG, supporting their work in reducing casualties through education, training, publicity and engineering, as well as through enforcement.

Managing Offenders

10.16 In order to protect communities from harm, the Force will be even more proactive in its relentless pursuit of offenders - catching, disrupting and deterring them at every opportunity.

10.17 In particular, the force will tackle repeat offenders who often prey on those who are vulnerable, focusing on all types of crime but especially those against people and their property – such as burglary and car crime. Investment in a dedicated, agile team will strengthen the force's ability to target those perpetrating serious and organised crime; working tirelessly at a local, regional and national level including strong collaborations with adjoining forces including the Regional Organised Crime Unit (West Midlands). The force's ultimate aim is to keep people safe and to this end it is focused on managing offenders better by bringing them to justice, focusing on rehabilitation (where appropriate) and improving outcomes for victims.

Victims and Witnesses

10.18 Offenders are increasingly committing crime in the cyber-space or are making extensive use of digital devices across all types of crime with digital and cyber being the largest growing area for crime. The force will tackle cyber-crime by investing in digital investigation and intelligence; increasing its capacity and capability to carry out ‘specialist’ work through local hubs and improving the quality of investigations for high volume crime types – e.g. router analysis. It will focus on the development of officers’ digital investigation skills, alongside further investment in the specialist teams tackling those causing the most harm, including sex offenders.

10.19 In parallel it will build on and improve its forensic triage capability, making it more accessible and agile so that it better supports the work of operations such as Op Safenet. Demand for this service has doubled in the last two years and it is vital that the force sustains the timely gathering of crucial evidence.

10.20 Technology is a vital tool in helping the force prevent and fight crime more efficiently and effectively and better serve the public.

10.21 Crime is becoming ever more complex, with growing dangers of online threats and those that stretch well beyond its borders – locally and internationally. By bringing together its analytical capability and providing it with the necessary tools to swiftly handle large volumes of data, the force can improve the way it identifies suspects and manages offenders, enabling its investigators to do so more easily, bringing offenders to justice sooner and improving outcomes for victims.

11. Reserves Position

11.1 The MTFS includes proposals to replace and restrengthen the reserves position alongside investing in service delivery. The reserves strategy is being presented alongside the MTFS.

11.2 If the proposals in this report are adopted then the reserves position will be as follows over the period:

Table 14: Reserves Strategy over the Medium Term

	31/03/2019 Estimate £'000	31/03/2020 Budget £'000	31/03/2021 Budget £'000	31/03/2022 Budget £'000	31/03/2023 Budget £'000
Police Incidents – minimum 2% of base	4,610	5,910	5,910	5,910	5,910
Police unfunded pay increase					
General Reserves	**4,610**	**5,910**	**5,910**	**5,910**	**5,910**
Transformation costs	2,036	2,036	2,036	2,036	2,036
Commissioner's Development Fund			1,000	1,000	1,000
Restructuring costs	1,939	-	-	-	-
Earmarked Reserves	**3,975**	**2,036**	**3,036**	**3,036**	**3,036**
Insurance Reserve	-	100	200	300	400
LGPS and other Pension Provisions	-	-	-	-	-
Other provisions	-	-	-	-	-
Provisions	**-**	**100**	**200**	**300**	**400**
Other earmarked reserves	438	488	538	588	588
TOTALS	**9,023**	**8,534**	**9,684**	**9,834**	**9,934**

12. Capital Programme 2019/20 to 2023/24

12.1 The Capital Programme is set out in Appendix 6. The revenue consequences of the proposed programme have been taken into account in the development of the revenue budget and the required prudential indicators are set out in the accompanying Treasury Management Strategy.

12.2 The core Capital Programme was considered by both the Commissioner and the Force at the Strategic Governance Board meeting in January 2018. The Programme includes investment on operational areas of premises, IT and vehicle fleet, together with assumptions for Capital Receipts and timings of work. The Commissioner provided scrutiny and oversight given the size of the expected spend.

12.3 The Capital Programme also includes the strategic investment requirements arising out of the Transformation Programme activity, which the Commissioner has worked extensively with the Force on together with the resultant benefits to be realised through improved productivity and also to generate cashable benefits.

12.4 Over the MTFS period of 2018/19 to 2021/22, the Capital Expenditure will be £50,975m. The majority of the expenditure will be on the Transformation Programme activity and ICT Investment, which constitutes £35,065m over the MTFS period.

12.5 The table below details the Capital Programme Projects and spend over the MTFS period.

Table 15: Capital Programme Spending

Capital Investment Area	2018/19 £'000 (Forecast)	2019/20 £'000 (Proposed)	2020/21 £'000 (Estimate)	2021/22 £'000 (Estimate)	Total £'000
Estates	2,166	2,814	1,778	1,497	8,255
ICT & Transformation	13,188	16,177	4,000	1,700	35,065
Commissioner & Partnerships	12	52	20	20	104
Equipment	144	240	100	100	584
Vehicles	1,000	1,000	1,000	1,000	4,000
Redundancies	0	2,967	0	0	2,967
Total	**16,510**	**23,250**	**6,898**	**4,317**	**50,975**

12.6 The expected funding of the programme is outlined below. In order to reduce reliance on borrowing and impact on the revenue budget arising from capital interest charges, the Commissioner is proposing to fund a significant part of this capital investment from proceeds generated by the sale of the Estate as per his capital strategy.

Table 16: Capital Programme Funding

Funding	2018/19 £'000 (Forecast)	2019/20 £'000 (Proposed)	2020/21 £'000 (Estimate)	2021/22 £'000 (Estimate)	Total £'000
Capital Receipts	4,271	828	1,320	99	6,518
Capital Grants	1,014	697	697	697	3,105
Revenue Contribution	18	0	0	0	18
Earmarked Reserves	0	4,122	0	317	4,439
Borrowing	11,207	17,603	4,881	3,204	36,895
Total	16,510	23,250	6,898	4,317	50,975

12.7 The funding of the Capital Programme over the MTFS period, takes into account the Prudential Code, which applies to all local authorities, including Commissioners.

12.8 The main objectives of the Prudential Code are that capital investment plans are affordable, prudent and sustainable.

12.9 The programme is dependent on the planned sale of assets: without realising these sales the burden of funding will fall more heavily on the revenue budget through the minimum revenue provision which will have to be increased to allow for the repayment of loans. There are detailed plans to realise available net capital receipts of £4,450M from 2019/20 onwards having made £11,521M available in 2018/19.

12.10 As the Code of Practice dictates, the first call on capital receipts is to fund their replacement or other capital investment. In the ordinary course of events, spend on business change and transformation support cannot be capitalised. The Secretary of State's capitalisation directive does not of course change this, however, the Commissioner intends to use the facility allowed to apply capital receipts to pay for Transformation spend. In doing so, this protects revenue reserves from the uneven impact of spend created by a transformation programme and uses the flexibility available to the full to relieve this and future years' revenue budgets.

12.11 The table below illustrates how the Commissioner will use Capital Receipts to support the investment in Staffordshire Police across the Medium Term.

Table 17: Planned Capital Receipts and Application

Capital Receipts	2018/19 £m (Outturn)	2019/20 £m (Estimate)	2020/21 £m (Estimate)	2021/22 £m (Estimate)	2022/23 £m (Estimate)	Total £m
Received:						
Estates	11,521	3,229	1,220	0	0	15,970
Other e.g. vehicles	99	99	99	99	99	495
Total	**11,622**	**3,328**	**1,319**	**99**	**99**	**16,467**
Applied to:						
Capital	4,271	828	1,319	99	99	6,616
Fund MRP	1,250	0	0	0	0	1,250
Transformation	2,139	0	0	0	0	2,139
Create Reserves	3,962	2,500	0	0	0	6,462

12.12 The Commissioner seeks to meet these Prudential Code objectives as follows:

- **Affordability & Sustainability** – the Commissioner takes into account all of the resources currently available to the organisation and estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the coming year and the following two years.

- **Prudent** – over the MTFS period, then any net borrowing (that is after any capital receipts, grants, sale of assets) will only be used for capital purposes. CIPFA also require that limits are set in place for fixed and variable interest rates exposures and on the maturity structure of borrowing.

12.13 The Prudential Code key indicators are set out in the accompanying Treasury Management Strategy.

13. Statement of the Commissioner CFO on the robustness of the Budget and adequacy of the proposed financial reserves

13.1 The Local Government Act 2003, Part 2, Section 25, as amended by the Police Reform and Social Responsibility Act 2013, requires the Commissioner's CFO to report on the robustness of the estimates used for the budget and the adequacy of the proposed financial reserves. The Commissioner is required to have regard to the report of the CFO and the report must be given to the Police and Crime Panel.

"The budget for 2019/20 has been prepared on a robust basis and that although the financial position in the longer term is challenging, the Force have put in place arrangements to deliver activities and outcomes to address these shortfalls.

Beyond 2019/20, there is reduced uncertainty as to how finance settlement and the formula might look. Following the headlines identified in the Home Office December statement, then there is a better than anticipated settlement for the Police, both at a national and local level. However, it is reasonable to assume that the operational and financial challenges will continue and these are reflected as best estimates in the MTFS to 2022/23.

During the year much work has been done to improve the reserves position through reducing the need to rely on reserves and other means. The budget allows for a contribution to reserves in 2019/20 and 2020/21 which will begin to return resilience to the reserves but the position remains of concern and a strategic risk on the risk register. The budget also allows for provisions to be created which smooth the impact of uneven and uncertain costs on the General Fund position, also returning resilience to the overall position.

I conclude, therefore, that the budget for 2019/20:

- Has been prepared on a robust basis, and
- Includes investment into visibility in line with the Commissioner's Police and Crime Plan priority and
- Is accompanied by a Reserves Strategy which shows how resilience will be returned to the reserves position.

However, the financial landscape is still challenging and the MTFS identifies savings which need to be found. The uncertainty and challenges have been identified within this report and the MTFS will be under regular review as savings plans progress."

Appendix 1 – DETAILED PROPOSED REVENUE BUDGET 2019/20 (COMPARED TO 2018/19)

FUNDING AVAILABLE

	Revised Budget	Known Ongoing Pressure	New Grant	Increase	Taxbase Increase	Council Tax Increase	2019/20 Budget
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Grant and Council Tax	-						
Home Office Police Grant	(104,936)		(2,203)				(107,139)
Revenue Support Grant	(8,423)		0				(8,423)
Council Tax Freeze Grant	(3,541)		0				(3,541)
Pension Grant	0		(1,825)				(1,825)
Council Tax	(65,757)				(981)	(8,318)	(75,056)
Collection Fund Surplus	(792)			(218)			(1,010)
NET BUDGET REQUIREMENT	**(183,449)**	**0**	**(4,028)**	**(218)**	**(981)**	**(8,318)**	**(196,994)**

	Revised Budget	Known Ongoing Pressure	New Grant	Increase	Taxbase Increase	Council Tax Increase	2019/20 Budget
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Funding Adjustments							
Reserve Transfers	(831)	831		1,300			1,300
Use of capital receipts	(2,056)	2,056					0
Recharge direct to capital	(146)	146		(560)			(560)
Unallocated (Savings)/Investment	(713)	713		994			994
FUNDING	**(3,746)**	**3,746**	**0**	**1,734**	**0**	**0**	**1,734**
Capital Financing	-						
Capital Financing Costs	5,427	65					5,492
CAPITAL FINANCING	**5,427**	**65**	**0**	**0**	**0**	**0**	**5,492**

Force	Revised Budget	Base Pressures	Detailed Review Pressures	Staffing	Inflation	Efficiency Savings	BASE	Invest-ments	Savings Plans (Appx 5)	Revised Budget
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Pay										
Police Officer Pay Costs	90,749	663		(980)			90,432	1,625	(750)	91,307
PCSO Pay Costs	8,877			231			9,108		(750)	8,358
Police Staff Pay Costs	42,205		2,413	433			45,051	400	(3,013)	42,438
Other Employee Costs	2,758				37		2,795	100	(200)	2,695
Police Officer Pensions	5,561	1,290	115	4,027			10,993			10,993
	150,150	**1,953**	**2,528**	**3,711**	**37**	**0**	**158,379**	**2,125**	**(4,713)**	**155,791**
Non Pay										
Repairs & Maintenance	50						50			50
Other Premises Costs	4,072		147		298	(98)	4,419		(308)	4,111
Vehicle Costs	2,111				135		2,246		(173)	2,073
Other Travel Costs	474				9		483			483
Administration	1,861	800			37		2,698		(97)	2,601
Operational Supplies & Service	4,130	25	650		83		4,888		(30)	4,858
Communications & Computers	4,945		30		72		5,047	0	(20)	5,027
Other Supplies & Services	861				4		865	80	0	945
	18,504	**825**	**827**	**0**	**638**	**(98)**	**20,696**	**80**	**(628)**	**20,148**
Contracted										
Third Party Payments	14,401	1,040					15,441		(5)	15,436
	14,401	**1,040**	**0**	**0**	**0**	**0**	**15,441**	**0**	**(5)**	**15,436**
Income										
Grants & Contributions	(6,467)						(6,467)			(6,467)
Reimbursements	(3,121)						(3,121)			(3,121)
Sales, Fees & Charges	(1,111)		53				(1,058)		(122)	(1,180)
Other Income	0						0			0
	(10,699)	**0**	**53**	**0**	**0**	**0**	**(10,646)**	**0**	**(122)**	**(10,768)**
	172,356	**3,818**	**3,408**	**3,711**	**675**	**(98)**	**183,870**	**2,205**	**(5,468)**	**180,607**

Commissioner OPCC Budget	Revised Budget 2018/19	Pressures	Detailed Review Pressures	Staffing	Inflation	Efficiency Savings	BASE	Invest-ments	Savings Plans (Appx 5)	Revised Budget
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Pay										
Police Officer Pay Costs	0						0			0
PCSO Pay Costs	0						0			0
Police Staff Pay Costs	1,376	48	97	49			1,570		(148)	1,422
Other Employee Costs	88		28	6			122			122
Police Officer Pensions	0						0			0
	1,464	**48**	**125**	**55**	**0**	**0**	**1,692**	**0**	**(148)**	**1,544**
Non Pay										
Repairs & Maintenance	0						0			0
Other Premises Costs	0						0			0
Vehicle Costs	0						0			0
Other Travel Costs	21					(2)	19			19
Administration	275					(18)	257		(30)	227
Operational Supplies & Service	3,312						3,312			3,312
Communications & Computers	80		2				82			82
Other Supplies & Services	4	13	2				19		0	19
	3,692	**13**	**4**	**0**	**0**	**(20)**	**3,689**	**0**	**(30)**	**3,659**
Contracted										
Third Party Payments	6,140	980					7,120	589	(565)	7,144
	6,140	**980**	**0**	**0**	**0**	**0**	**7,120**	**589**	**(565)**	**7,144**
Income										
Grants & Contributions	(1,855)		76				(1,779)	(200)		(1,979)
Reimbursements		-1,041	(125)				(1,166)			(1,166)
Sales, Fees & Charges							0			0
Other Income	(30)	(2)				(10)	(42)			(42)
	(1,885)	**(1,043)**	**(49)**	**0**	**0**	**(10)**	**(2,987)**	**(200)**	**0**	**(3,187)**
	9,411	**(2)**	**80**	**55**	**0**	**(30)**	**9,514**	**389**	**(743)**	**9,160**

APPENDIX 2 – BUDGET CONSULTATION AND PUBLIC FEEDBACK

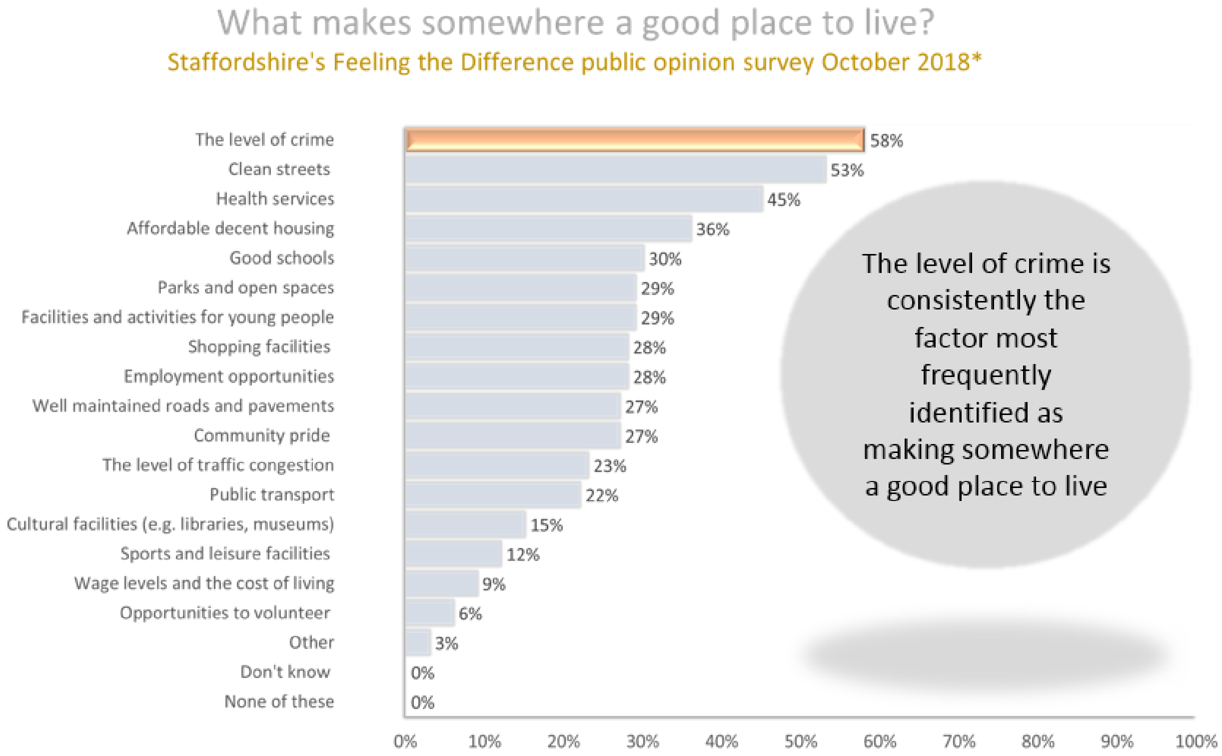
The Consultation ran from December 24th to January 11th and received 500 responses

- 91.4% of the responses supported investment in Policing.

The Force commission work through the 'Feeling the Difference' public opinion survey. Based on the combined results of four surveys up to October 2018 representing the views of at least 6,600 Staffordshire residents aged 16 and over:

The level of crime

- The level of crime is consistently the factor most frequently identified as making somewhere a good place to live
- Where the level of crime is identified as a factor that is important in making somewhere a good place to live AND something that needs improving respondents can feel up to*:
  - 20% less satisfied with their local area as a place to live
  - 20% less safe outside in their local area after dark
  - 20% less confident in their local police
  - Three times or more likely to be a victim of crime in their local area
- The proportion of respondents who feel the level of crime needs improving is increasing. It is therefore important that we do all we can to deal with crime and its impact if we are to ensure Staffordshire remains an overall safe place to be



APPENDIX 3 – MTFS

2018/19 REVISED BUDGET £,000		2019/20 Budget £,000	2020/21 Plan £,000	2021/22 Plan £,000	2022/23 Plan £,000
90,749	Police Officer Pay Costs	91,307	93,706	95,970	98,302
8,877	PCSO Pay Costs	8,358	8,428	8,706	8,993
42,205	Police Staff Pay Costs	42,438	41,837	42,903	44,290
2,758	Other Employee Costs	2,695	2,733	2,779	2,819
5,561	Police Officer Pensions	10,993	11,546	12,116	12,702
-	Non Pay Costs				-
50	Repairs & Maintenance	50	50	50	50
4,072	Other Premises Costs	4,111	4,286	4,575	4,884
2,111	Vehicle Costs	2,073	2,046	2,206	2,380
474	Other Travel Costs	483	493	503	513
1,861	Administration	2,601	2,629	2,668	2,707
4,130	Operational Supplies & Service	4,858	4,942	5,028	5,115
4,945	Communications & Computers	5,027	5,100	5,175	5,252
861	Other Supplies & Services	945	979	983	987
14,401	Third Party Payments	15,436	16,281	16,329	16,334
(10,699)	Other Income	(10,768)	(10,840)	(10,912)	(10,984)
172,356	**Force Budget Requirement**	**180,607**	**184,216**	**189,078**	**194,343**
1,464	OPCC Staff	1,544	1,572	1,599	1,626
3,692	Other Supplies & Services	3,659	3,659	3,659	3,659
6,140	Commissioning	7,144	6,944	6,944	6,944
(1,885)	Income	(3,187)	(2,911)	(2,911)	(2,911)
9,411	**PCC Budget Requirement**	**9,160**	**9,264**	**9,291**	**9,318**
5,427	Capital Financing	5,492	5,929	6,126	8,023
(146)	Capitalisation of revenue costs	(560)	(560)	0	0
(2,056)	Use of capital receipts	0	0	0	0
(831)	Reserve Transfers	1,300	1,000	0	0
(713)	Unallocated (Savings) / Investments	995	270	(988)	(4,640)
183,448	**Net Revenue Budget**	**196,994**	**200,119**	**203,508**	**207,045**
	Funded By:				
104,936	Home Office Police Grant	107,139	107,139	107,139	107,139
8,423	Revenue Support Grant	8,423	8,423	8,423	8,423
3,541	Council Tax Freeze Grant	3,541	3,541	3,541	3,541
	Police Pension Grant	1,825	1,825	1,825	1,825
792	Collection Fund Surplus	1,010	886	886	886
65,757	Council Tax Precept	75,056	78,305	81,694	85,231
36%	Council Tax as % of total Funding	38%	39%	40%	41%
183,448	**Funding**	**196,994**	**200,119**	**203,508**	**207,045**

APPENDIX 4 - CHANGE IN MTFS

	2019/20	2020/21
Forecast February 2018	188,336	190,814
Increased Government Grant	4,028	4,028
Increase Council Tax / Collection Fund	4,630	5,277
Current Forecast	196,994	200,119
Change	8,658	9,305
Difference:		
Pensions contribution rate	4,207	4,760
Planned contribution to reserves	(450)	1,000
Provisions for uneven expenditure	2,090	2,090
Efficiency Savings	189	(2,645)
Capitalisation of revenue cost	372	(560)
Capital Financing	115	(334)
IT Investment	579	77
Additional Investments	1,555	4,917
CHANGE IN BUDGET REQUIREMENT	8,658	9,305

APPENDIX 5 – SAVINGS PROPOSALS

Deputy Chief Constables Directorate (DCC)

Business Planning Reference	Service	SRO	Savings Type	Description	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
BC0001	DCC	Simon Tweats	Redesign	**Redesign of the Directorate** - A redesign of the directorate has been undertaken and is currently subject to consultation. (Subject to the statutory consultation period these savings may change)		(423)	(423)	(423)
BC0008	DCC	Simon Tweats	Efficiency	**Vacancy Control** - Vacancy controls have been introduced in light of the current work being undertaken around the development of shared services across Police & Fire	(86)	(86)	(86)	(86)
BC0002	DCC	Nick Baker	Cut	**Reduction in Hospitality Spend** - Additional controls are being implemented to reduce the spend on hospitality for external visitors.	(20)	(20)	(20)	(20)
BC0003	Cross Cutting	Jenny Sims/Emma Barnett	Cut	**Overtime** - additional controls are being developed and implemented to manage spend on overtime as efficiently as possible.	(750)	(750)	(750)	(750)
BC0047	Cross Cutting	Simon Tweats	Redesign	**Core Policing Platform Implementation -** efficiencies made from lack of duplication initially in respect of crime recording/validation and case preparation, enabling officers through mobile systems to record in the moment rather later through admin teams, therefore reducing duplication. Ultimately retirement of multiple existing systems enable a more modern technological solution and better outcomes.	(145)	(578)	(578)	(578)
BC0004	Cross Cutting	Simon Tweats	Redesign	**Business Support Review** - proposals to streamline the business support offer to directorates and Force Executive.	(60)	(120)	(120)	(120)
Total Savings Options for DCC					**(1,061)**	**(1,977)**	**(1,977)**	**(1,977)**

People & Resources

Business Planning Reference	Service	SRO	Savings Type	Description	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
BC0005	Finance & Commercial	John Bloomer	Efficiency	**Reduction in External Audit Fees** - a recent PSAA retendering exercise has resulted in a 22% reduction in the fees paid to external auditors.	(7)	(7)	(7)	(7)
BC0006	Cross Cutting	Justine Kenny	Fire Governance	**Police/Fire Governance Changes** -The Directorate will initially commit to holding vacancies in light of the current work being undertaken around shared services across Police and Fire. Note these savings will cut across more than one directorate	(458)	(950)	(1,237)	(1,302)
BC0007	Fleet	Sarah Wood	Cut	**Reduction in Fleet Costs** - A stepped reduction in fleet revenue running costs is being targeted over a two year period equivalent to 20% of current spend	(173)	(346)	(346)	(346)
BC0011	Estates	Graham Read	Efficiency	**Estates Disposal Programme -** The elimination of revenue running costs of stations vacated and sold by April 2019. The police estate is kept under constant review to ensure that it meets the needs of the force most effectively to serve communities and keep people safe. A comprehensive programme of disposals, relocations and co-locations with partners and FARS will lead to significant efficiencies and savings, freeing up resources which the force believes would be better spent keeping officers on the street and in communities.	(238)	(308)	(308)	(308)
BC0019	Police Posts	Helen Holden	Redesign	**Review of Property Leases** - The Force is committed to a number of small Police Posts with low utilisation rates. A review is being undertaken to rationalise or renegotiate these leases in light of Fire integration.	(45)	(90)	(135)	(180)

Business Planning Reference	Service	SRO	Savings Type	Description	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
BC0010	Estates	Helen Holden	Cut	**Reduction in Soft Facilities Services** - a review will be undertaken in conjunction with Kier of soft facilities management services to identify opportunities for increasing savings and efficiencies.	(25)	(50)	(50)	(50)
BC0012	Cross Cutting	Justine Kenny	Efficiency	**Printing** - Introduction of controls to reduce printing costs across the force.	(40)	(40)	(40)	(40)
BC0013	Cross Cutting	John Bloomer	Income	**Inflation on Force Income** - Assumed increase by CPI in rates determined nationally by the NPCC and those locally within Force control	(72)	(144)	(216)	(288)
BC0015	Senior Management Review	Justine Kenny	Redesign	**Removal of the Chief Technology Officer Post** - The CTO role has been removed and a Service Assurance Manager will be introduced.	(30)	(30)	(30)	(30)
BC0016	IT Consumables	Helen Holden	Efficiency	**Spend on IT Consumables** - The Force will commit to reducing spend on IT consumables by 10% through the introduction of tighter procurement controls. . This will be achieved through both tighter control	(20)	(20)	(20)	(20)
BC0017	Furniture Spend	Helen Holden	Efficiency	**Spend on Replacement Furniture** - The Force will reduce its spend on furniture and fittings through better utilisation across the force and the introduction of agile working.	(20)	(20)	(20)	(20)
BC0018	Postal Spend	Helen Holden	Efficiency	**Review Use of External Postage** - The Force will commit to reviewing the use of external postage carriers in light of the increasing move to digital communications	(10)	(20)	(20)	(20)
BC0020	Property Review	Helen Holden	Income	**Charging external bodies for use of Police owned property** - a review will be undertaken to ensure the Force and Staffordshire Commissioner are recovering the costs from partner organisations who use our office space.	(50)	(50)	(50)	(50)

Business Planning Reference	Service	SRO	Savings Type	Description	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
BC0021	Cross Cutting	Justine Kenny	Cut	**Use of Consultants & Interims** - From April the budget for the use of interims and consultants will be centralised and additional controls will be introduced to manage usage more tightly.	(200)	(200)	(200)	(200)
Total Savings Options for People & Resources					**(1,388)**	**(2,275)**	**(2,679)**	**(2,861)**

Neighbourhoods & Partnerships

Business Planning Reference	Service	SRO	Savings Type	Description	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
BC0022	PCSOs	Jeff Moore	Redesign	**Reduction in PCSO establishment** - Since 2010 the Force has held the number of PCSO posts at 240; the Average Force has seen a reduction of 40% in PCSO numbers. Through managing turnover the average numbers in post will reduce throughout the 2019/20 and 2020/21 financial year down to a new establishment of 215.	(750)	(950)	(950)	(950)
BC0023	Partnerships	Jeff Moore	Cut	**Review of Partnership Contributions** - A review will be carried out of spend on partnerships to ensure they align to priority Force outcomes.	(5)	(5)	(5)	(5)
BC0024	Vacant Posts Review	Jeff Moore	Efficiency	**Vacancy Factor/Vacant Posts Review** - The directorate has a number of vacant Police Staff Posts. Whilst these are being reviewed with a view to disestablishing, a vacancy factor will be established at 2% of the overall staff budget to reflect that these posts are vacant. These posts currently held as vacant are in anticipation of savings requirements - These are posts that are not covered by other savings	(96)	(96)	(96)	(96)
Total Savings Options for Neighbourhoods & Partnerships					**(851)**	**(1,051)**	**(1,051)**	**(1,051)**

Contact & Response

Business Planning Reference	Service	SRO	Savings Type	Description	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
BC0025	Contact	Lisa Cope	Redesign	**Front Office Counters** - We are transforming the way we work to better serve communities by modernising how they can contact us and making this more convenient and flexible through new online services. As part of this we are reviewing the locations and opening hours of front office counters to reduce the number of staffed locations in line with public demand. This does not affect police officers and it will not affect the policing of local areas. When the public do want to talk to an officer, there will be a greater range of options available from drop-in surgeries to partnership hubs.	(550)	(550)	(550)	(550)
BC0026	Contact	Lisa Cope	Redesign	**Control Room Channel Shift** - Investment in developing online solutions and improved social media contact channels and services will allow the public effective and efficient access on non-emergency matters, helping to reduce demand into the Contact Centre and delivering an efficient and responsive service to the public in a way that is more convenient to them.	(219)	(401)	(401)	(401)
BC0027	Contact	Lisa Cope	Redesign	**Control Room Improvements** - efficiencies through new ways of working, linked to channel shift, as well as the implementation of the Resolution Centres. The new telephone and online resolution service means people can now already report minor incidents and crimes from anywhere at a time which is convenient for them.	(475)	(596)	(596)	(596)
Total Savings Options for Contact & Response					**(1,244)**	**(1,547)**	**(1,547)**	**(1,547)**

Investigations

Business Planning Reference	Service	SRO	Savings Type	Description	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
BC0029	Forensics	John Beckwith	Efficiency	**Change to the Forensics Offer** - A PBB process has been carried out to link activity to outcome and to prioritise investment in activities that lead to a positive outcome.	(263)	(350)	(350)	(350)
BC0030	Forensics	John Beckwith	Efficiency	**Insourcing of Service** - the Force will purchase software to enable it to insource some digital forensics capabilities that are currently outsourced. This saving is presented net of investment.	(30)	(30)	(30)	(30)
BC0031	Vacant Posts Review	Javid Oomar	Efficiency	**Vacancy Factor/Vacant Posts Review** - The directorate has a number of vacant Police Staff Posts. Whilst these are being reviewed with a view to disestablishing, a vacancy factor will be established at 2% of the overall staff budget to reflect that these posts are vacant. These posts currently held as vacant are in anticipation of savings requirements - These are posts that are not covered by other savings.	(147)	(147)	(147)	(147)
Total Savings Options for Investigations					**(440)**	**(527)**	**(527)**	**(527)**

Operational Support

Business Planning Reference	Service	SRO	Savings Type	Description	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
BC0032	Justice Services	Jane Hewett	Redesign	**Changes to Justice Services** - A reorganisation will deliver significant savings.	(196)	(267)	(267)	(267)
BC0033	Knowledge Hub	Elliot Sharrad-Williams	Redesign	**Creation of the Knowledge Hub**	(121)	(491)	(491)	(491)
BC0036	Vacant Posts Review	Elliot Sharrad-Williams	Efficiency	**Vacancy Factor/Vacant Posts Review** - The directorate has a number of vacant Police Staff Posts. Whilst these are being reviewed with a view to disestablishing, a vacancy factor will be established at 2% of the overall staff budget to reflect that these posts are vacant. These posts currently held as vacant are in anticipation of savings requirements - These are posts that are not covered by other savings	(168)	(168)	(168)	(168)
Total Savings Options for Operational Support					**(485)**	**(926)**	**(926)**	**(926)**

Total Savings Proposals	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
Efficiency	(1,124)	(1,291)	(1,291)	(1,291)
Fire Governance	(458)	(950)	(1,237)	(1,302)
Income	(122)	(194)	(266)	(338)
Redesign	(2,591)	(4,496)	(4,541)	(4,586)
Cut	(1,173)	(1,371)	(1,371)	(1,371)
TOTAL	**(5,468)**	**(8,302)**	**(8,707)**	**(8,888)**

Office of the Police and Crime Commissioner

Business Planning Reference	Service	SRO	Savings Type	Description	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
PCCS01	Senior Management	Glynn Dixon	Fire Governance	The Commissioner will have one senior finance professional to advise him across his two portfolios.	(62)	(62)	(62)	(62)
PCCS02	Senior Management	Glynn Dixon	Fire Governance	The Commissioner will fairly apportion the cost of his senior team between the costs to Police and to Fire	(86)	(86)	(86)	(86)
PCCS03	Communications	Samantha Harris	Efficiency	The Commissioner will spend less on media and marketing	(10)	(10)	(10)	(10)
PCCS04	Commissioning	Paula Hammond	Redesign	Video links which were going to be increased will now not be, but no existing provision will be removed	(10)	(10)	(10)	(10)
PCCS05	Commissioning	Paula Hammond	Redesign	The Diversionary activities programme which was funded as a startup activity is now taken on by Stoke City FC and support for further development of PSHE materials is removed.	(21)	(21)	(21)	(21)
PCCS06	Office	Glynn Dixon	Efficiency	The Commissioner's office will reduce its annual office spend	(20)	(20)	(20)	(20)
PCCS07	Commissioning	Paula Hammond	Redesign	We will reduce the amount available to bid for in each round of POCA bids	(95)	(95)	(95)	(95)
PCCS08	Commissioning	Paula Hammond	Redesign	Funding for local areas community safety priorities will be aligned with the new governance structures for community safety (and reinvested in a different way).	(250)	(250)	(250)	(250)
PCCS09	Commissioning	Paula Hammond	Redesign	There is less money available to the People Power Fund	(100)	(100)	(100)	(100)
PCCS11	Commissioning	Paula Hammond	Redesign	The SCO removes non statutory support for partnership funding arrangements mostly with the County Council	(59)	(59)	(59)	(59)

Business Planning Reference	Service	SRO	Savings Type	Description	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
PCCS12	Commissioning	Paula Hammond	Redesign	The Commissioner's successful SPACE programme would be cut now that it is attracting further support and investment from other partners	(30)	(30)	(30)	(30)
TOTAL					**(743)**	**(743)**	**(743)**	**(743)**

Total Savings Proposals	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
Efficiency	(30)	(30)	(30)	(30)
Fire Governance	(148)	(148)	(148)	(148)
Income	0	0	0	0
Redesign	(376)	(376)	(376)	(376)
Cut	(189)	(189)	(189)	(189)
TOTAL	**(743)**	**(743)**	**(743)**	**(743)**

APPENDIX 6 – CAPITAL PROGRAMME

	P9 Monitoring	Capital Programme Budget 2019/20			Capital Programme Forecast		
	Revised Capital Programme 2018/19	Approved 2019/20 Budget	Slippage of Budget from 2018/19	Restated Capital Programme	Capital Programme 2020/21	Capital Programme 2021/22	Capital Programme 2022/23
	£000	£000	£000	£000	£000	£000	£000
IT	13,188	4,560	11,617	16,177	4,000	1,700	2,932
Estates	2,166	1,934	880	2,814	1,778	1,497	1,400
Vehicles	1,000	1,000	-	1,000	1,000	1,000	1,000
Equipment	144	90	150	240	100	100	100
OPCC & Strategic Partnership (MASH)	12	20	32	52	20	20	20
Redundancies	-	2,967	-	2,967	-	-	-
Total Capital	**16,510**	**10,571**	**12,679**	**23,250**	**6,898**	**4,317**	**5,452**
<u>Capital Programme Funding</u>							
Capital Grants	(1,014)			(697)	(697)	(697)	(697)
Capital Receipts	(4,271)			(828)	(1,320)	(99)	(59)
Revenue Contribution	(18)			-	-	-	-
Earmarked Reserves				(4,122)	-	(317)	-
Borrowing Requirement	(11,207)			(17,603)	(4,881)	(3,204)	(4,696)
Total Funding	**(16,510)**	**-**	**-**	**(23,250)**	**(6,898)**	**(4,317)**	**(5,452)**

Report to the Police Fire and Crime Panel – 28th January 2019

Policing Treasury Management Strategy Report 2019/20

Report of the Staffordshire Commissioner

Introduction

In addition to his existing role overseeing Staffordshire Police, the Staffordshire Commissioner became responsible for the governance of the Staffordshire Fire and Rescue Service from August 2018. However both remain separate organisations, with separate budgets, staff and governance processes.

This report will detail the treasury management strategy for Staffordshire Police only; a separate report will follow for the Staffordshire Fire and Rescue Service. When reference is made to the Commissioner as part of this report, this represents his Staffordshire Police role only.

Recommendations

a) That the proposed borrowing strategy for the 2019/20 financial year is noted. The main features are: -

- to continue with the use of cash as far as practical, with the ability to raise long-term loans following consultation with the Director of Finance and the Commissioner;
- a forward borrowing strategy that will not be used; and
- a loan restructuring strategy that is potentially unlimited where this rebalances risk.

b) That in accordance with the MHCLG's Guidance on Local Authority Investments, the Panel note that the Annual Investment Strategy (AIS) 2019/20 has been adopted by the Commissioner as set out in Section 6 of this report and detailed in Appendix 3.

c) That the following policies are noted: -

- reviewing the strategy;
- the use of external advisors; and
- training.

Matthew Ellis
Staffordshire Commissioner

Contact Officer: Jane Heppel
Telephone: 01785 232449
Email: jane.heppel@staffordshire-pfcc.pnn.gov.uk

1. **Introduction**

1.1 This report outlines the Policing Treasury Management Strategy for 2019/20.

1.2 Treasury management comprises the management of the cash flows, borrowings and investments, and their associated risks. The Commissioner is exposed to financial risks, including the effects on revenue from changing interest rates on borrowings and investments, and the risks of a potential loss of invested funds. Therefore it is essential that the Commissioner successfully identifies, monitors and controls financial risk as part of prudent financial management.

1.3 The Commissioner conducts his treasury risk management within the framework of the Chartered Institute of Public Finance and Accountancy's (CIPFA) revised Treasury Management in the Public Services Code of Practice (the CIPFA Code), published in December 2017. The CIPFA Code requires that the Commissioner approves a treasury management strategy before the start of each financial year. In addition, this report fulfils the legal obligation to have regard to the CIPFA Code under the Local Government Act 2003.

1.4 The Annual Investment Strategy (AIS) for 2019/20 meets the requirements of the statutory guidance issued by the Ministry of Housing, Communities and Local Government's (MHCLG) in its revised *Guidance on Local Government Investments* published in February 2018.

1.5 CIPFA's revised *Prudential Code for Capital Finance in Local Authorities* introduced the requirement for a new capital strategy report; this is a separate report and will give a high level overview of how capital expenditure, capital financing and treasury management contribute to the provision of services, with an overview of how risk is managed and implications for future financial sustainability.

1.6 This strategy has been prepared in conjunction with the Treasury and Pensions team at Staffordshire County Council (SCC), and after consultation with the Director of Finance of the Commissioner.

2. Economic background

2.1 The UK's progress in negotiating an exit from the European Union (EU), together with any future trading arrangements, will continue to be a major influence on the County Council's treasury management strategy for 2019/20. The Office for Budget Responsibility (OBR), the government's independent official forecaster, warned of the risks of the UK economy going into recession if a Brexit deal is not negotiated with the EU.

2.2 However, the OBR's current UK growth forecasts are based on achieving an orderly withdrawal process; in October 2018, it predicted that the UK economy will grow by 1.6% in 2019, an improvement on the 1.3% it had projected in March 2019. The improved forecasts coincided with October's autumn budget statement that saw Chancellor Philip Hammond announce a fiscal giveaway of close to £15 billion for 2019.

2.3 In August 2018, expectations for inflation caused the Bank of England's Monetary Policy Committee (MPC) to vote unanimously for a rate rise of 0.25%, taking Bank Rate to 0.75%. UK Consumer Price Inflation did fall back to 2.4% in September 2018 from 2.7% in August, although higher import and energy prices continued to hold inflation above the BoE target of 2%. The November Inflation Report showed that further interest rate increases may be required to bring inflation down to the 2% target over the forecast horizon.

2.4 The US economy has continued to perform well, and the Federal Reserve has maintained its monetary tightening stance and pushed up its target range for the Fed Funds Rate in December 2018 by 0.25% to 2.25% - 2.5%. It is expected that there will be a further two rises in 2019. However, there is a risk that the US-China trade war, combined with a continued tightening of monetary policy, may contribute to a slowdown in global economic activity in 2019.

2.5 Although Europe experienced slower growth in 2018, the European Central Bank has started conditioning markets for the end of quantitative easing as well as the timing of the first interest rate hike. This is currently expected in 2019, with the timing and magnitude of further rate increases thereafter.

2.6 Due to the risks of financial market volatility, the treasury strategy retains the low risk approach adopted in recent years, based on prioritising security, liquidity and then yield.

3. Interest rates

3.1 In terms of treasury management, the Bank Rate is fundamental to the income received and it may also affect expenditure on loan interest where new loans are taken out or variable rate loans are held.

3.2 The County Council has forecast two more Bank Rate hikes of 0.25% during 2019, to take official UK interest rates to 1.25%. The Bank of England's MPC continues to have a bias towards tighter monetary policy although it is has maintained further rate rises would be gradual and to a limited extent. Some commentators believe that MPC members consider cutting Bank Rate from a higher level would be a more effective policy if some of the Brexit risks transpire.

3.3 The UK economic environment remains uncertain, primarily because the economy faces a challenging outlook as it exits the EU. At the time of writing in late November, Prime Minister May had reached an agreement with the EU on transition and on future relations, that had been backed by her Cabinet. However, the deal would still need to be approved by UK and EU parliament with the possibility of a “no deal” Brexit still hanging over economic activity. As such, the risks to the interest rate forecast are considered firmly to the downside.

3.4 Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on the interest rate projections, due to the strength of the US economy and the ECB’s forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.5% and 2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

3.5 Interest rates in the medium term are still not expected to reach pre-crisis levels and this is important for the strategies that follow. This is because variable rate investment income will not cancel out fixed loan interest expenditure (known as the cost of carrying loans).

4. Credit outlook

4.1 The Bank Recovery and Resolution Directive (BRRD) from 2015 introduced a significant risk for local authorities. Under these rules, a failing bank will need to be ‘bailed-in’ by current investors instead of a ‘bail out’ by government. The risk of loss for local authorities in a bail-in situation is much greater, as any unsecured fixed-term deposits would be ranked near the bottom of the capital structure and would be one of the first to suffer losses.

4.2 Ring-fencing legislation adopted by UK financial regulators required the larger UK banks to separate their core retail banking activity from the rest of their business i.e. investment banking. The aim is to protect retail banking activity from unrelated risks elsewhere in the banking group, as occurred during the global financial crisis. The big four UK banking groups - Barclays, HSBC, Lloyds and NatWest/Royal Bank of Scotland - have now divided their retail and investment banking divisions into separate legal entities. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.

4.3 In November 2018, the Bank of England released the results of its latest stress tests on seven of the UK’s largest banks and building societies. The Bank believe that the tests showed that the UK banking system is resilient to deep recessions that are more severe than the global financial crisis. The Bank did not require any bank to raise additional capital.

4.4 European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading there. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be high if ever needed. The uncertainty caused by the protracted negotiations between the UK and EU is weighing on the creditworthiness for UK and European banks with substantial operations in both jurisdictions.

4.5 The Commissioner will work with the Treasury and Pensions team at the County Council to monitor developments on bank credit risk.

4.6 The Commissioner's full creditworthiness approach is detailed in the Authority's Annual Investment Strategy (AIS) outlined in **Section 8**. This also sets out where cash will be invested.

5. <u>Borrowing strategy</u>

5.1 At 31 March 2019, it is anticipated that long-term loan debt will be around 88% funded, i.e. covered by around £65m of fixed interest rate long-term loans. Around £7m is forecast to be needed to complete the borrowing reflecting the strategy of using cash to date (see table at **Paragraph 5.3**).

5.2 There are three main options in the borrowing strategy:

- to use cash (i.e. do not borrow);
- to bring borrowing up to the amount needed to fully fund the capital programme at any point in time; and
- to forward borrow up to two years in advance, as allowed in the Prudential Code.

5.3 The following table shows a forecast for the levels of debt, loans and use of cash at 31 March 2019 and for the next three years, after the use of capital receipts to fund spend.

	March 2019 £m	**March 2020 £m**	**March 2021 £m**	**March 2022 £m**
Forecast Gross Debt	75	91	92	91
Forecast Loans Position	(59)	(57)	(56)	(52)
Gap in Funding	**16**	**34**	**36**	**39**

5.4 Although forecasts are uncertain to some extent, this table shows that there is a notable increase in the level of forecast debt in the next couple of years (with the increase mainly driven by the planned investment in the IT programme). During this period loans are slowly maturing (falling due) but the gap in funding increases largely in line with the debt figures.

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Gap in Funding [1]	16	34	36	39
Forecast use of Cash (internal borrowing)	9	9	10	10
Forecast external borrowing	7	18	1	2
Forecast Loans Position	(66)	(82)	(82)	(81)

5.5 The table above shows loans are slowly maturing (falling due) over the period, but the gap in funding increases largely in line with the debt figures. The increases in the gap in funding are significant meaning that the use of cash in lieu of borrowing would not be sustainable, given the level of cash balances anticipated. The gap of funding could be supported through a combination of the use of cash and external borrowing, either temporarily through short term borrowing or more permanently through longer term borrowing.

5.6 It is important to understand that not all of the funding gap shown needs to be closed with loans; an important aspect of using some cash is its risk reduction effects:

- Using cash reduces security risk as investment balances are lower. The Government emphasises the importance of minimising this risk above all others in the regulations discussed later in this report. This is even more important to the Commissioner with the advent of bail-in risk.
- There is less exposure to variable interest rate changes; this exposure arises when a fixed term loan is taken out with corresponding variable rate investments. This is avoided when cash is used.
- The low interest rate environment allows a portion of the capital programme to be funded at low cost through the use of cash and this opportunity should continue to be maximised.

5.7 The Commissioner will monitor the benefits of internal borrowing on a regular basis as this strategy must be balanced against the possibility that long term borrowing costs may increase in future years, leading to additional costs incurred in deferring borrowing. The Commissioner will need to determine whether it borrows additional sums at long term fixed rates in 2019/20 with a view to keeping future interest costs low. To this end, the Commissioner will consult with the treasury team at Staffordshire County Council.

5.8 The strategy proposed is one that still aims to balance the liquidity needs of day to day cash management with the low risk approach that is offered by using cash. As cash balances will not be sufficient throughout the year, the

[1] The gap in funding is a cumulative figure and is funded by the in year use of cash and borrowing figures plus the previous year(s) borrowing figures.

question arises as to what loans should be raised to provide the liquidity necessary to allow the Commissioner to continue to pay its bills.

Sources of borrowing

5.9 The approved sources of long term and short term borrowing are:

- Public Works Loans Board (PWLB) and any successor body
- UK Municipal Bonds Agency Plc and any other special purpose companies created to enable local authority bond issues
- Other UK public sector bodies
- UK public pension funds
- Approved banks or building societies authorised to operate in the UK
- Any institutions approved for investments.

Short-term loans

5.10 Short-term loans raised from money markets are typically under 6 months duration. These are low cost and the Commissioner can respond flexibly to liquidity pressures by raising these when needed. The disadvantage of short-term loans is one of availability and it can be difficult to raise quickly from banks and building societies.

5.11 The local authority lending market has progressed considerably in recent years and funds are generally available in the short to medium term. However future availability cannot be predicted as loans raised depend upon other local authorities still having cash balances and being prepared to lend it to the Commissioner.

Long-term loans

5.12 Long-term loans are those for a duration of more than 12 months. The Commissioner has previously raised the majority of its long term borrowing from the PWLB, a statutory body that issues loans to local authorities. Government consent is not required hence the PWLB continues to be seen as the 'lender of first resort' because of the flexibility and ease of access. However local authorities are required by law to have regard to the Prudential Code and only borrow within relevant legislation and its borrowing powers.

5.13 In November 2016 the Government announced plans to transfer the powers of the PWLB to the Treasury. It is important to note that the reforms have had no real effect on the County Council's existing PWLB loans or on local authority lending policy from Central Government.

5.14 The exact type of loan to be raised by the Commissioner and its duration would have to be considered at the time; but with current interest rates and the maturity profile of the existing loan portfolio, loans towards the shorter end of the yield curve offer better value for money.

5.15 The optimum timing for borrowing cannot be foreseen and decisions often need to be taken at short notice. Because of this, it is proposed to delegate the decision to borrow long-term loans to the Director of Finance at the Commissioner, and reported retrospectively to the Finance Panel and the ETA Panel. In addition the outturn and half-year reports will update the position later in the year.

5.16 The overall strategy of maximising the use of cash in lieu of borrowing is still considered a relatively low risk strategy, although it is impossible to eliminate all treasury risk. The consequences of using cash are the possibility of increased costs in the future if interest rates rise; this must be balanced with the extra cost now if loans are raised (the cost of carry).

Loan restructuring

5.17 Movements in interest rates over time may provide opportunities to restructure the loan portfolio in one of two ways:

- Replace existing loans with new loans at a lower rate (known as loan rescheduling).
- Repay loans early, without replacing the loans. As this would increase the use of cash this is no longer a viable option with the debt levels outlined earlier.

5.18 Currently loan restructuring would be very expensive and unattractive for the Commissioner. This is because:

- gilt yields are still historically low. This would lead to large penalties to compensate the PWLB or its successor body if loans were repaid early; and
- new loans are much more expensive than in the past even though gilt yields are so low. Since 2010 the Government has increased the margin on top of gilts at which it onward lends to local government via the PWLB or its successor body (now 0.80%).

5.19 Market conditions and regulations can change and the outcome cannot be foreseen. It is therefore proposed to allow unlimited loan restructuring with the decision being delegated to the Director of Finance at the Commissioner, and reported retrospectively to the Finance Panel and the ETA Panel.

Policy on borrowing in advance of need

5.20 The Prudential Code allows borrowing to take place for more than or in advance of needs, as long as local authorities are not solely seeking profits from the investment of the extra sums borrowed. Government regulations state that there should be a specific policy on borrowing in advance of need.

5.21 As the borrowing strategy proposed for 2019/20 involves maximising the use of cash until borrowing is required, the policy is not to borrow in advance this year. This will be revisited annually as part of the overall borrowing strategy.

6. **Annual Investment Strategy (AIS) 2019/20**

MiFID II

6.1 Following the introduction of the second Markets in Financial Instruments Directive (MiFID II) regulations from January 2018, local authorities will automatically be treated as retail clients by financial services firms, unless they ‘opt up’ to be professional clients. As a retail client, local authorities would receive enhanced protections but this would also mean they may face restricted access to certain products including money market funds (MMF’s), pooled funds, treasury bills and treasury advice.

6.2 For 2019/20, the Commissioner are not expected to meet the criteria to opt up to be a professional client (in particular, the criteria to have investment balances over £10 million) and will continue to be treated as a retail client by financial firms.

6.3 Following the introduction of MiFID II, the Federated MMF confirmed it would no longer service retail clients. As a result the Commissioner closed their account with Federated and opened a new MMF with State Street in 2018/19. MMFs held by the Commissioner with Morgan Stanley and Aberdeen Standard will continue to service retail clients.

Investment options

6.4 The PCC manages a portfolio that reached a high of over £42m in 2018/19; however the average daily balance over the financial year is only expected to be about £9.6m. Since the financial crisis the Commissioner has taken a low risk approach to investment and the AIS continues in this vein.

6.5 The CIPFA Code requires the Commissioner to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Commissioner’s objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

6.6 If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

6.7 The main investment options to consider are related to:

- the credit risk of investment counterparties
- the length of the investment
- the type of financial instrument that are used.

6.8 The type of financial instruments that can be used can be divided into ‘specified’ investments and ‘non-specified’ investments.

Specified investments

6.9 Specified investments are investments made in sterling for a period of less than a year that are not counted as capital expenditure and are invested with:

- the UK Government;
- a UK local authority, parish council or community council; or
- a body or investment instrument that has ‘high credit quality’.

6.10 The first two named investments are not subject to “bail-in” risk as mentioned in **paragraph 6.1** in this report. The assessment of the third aspect of high credit quality is dealt with in the paragraphs that follow.

The Credit Management Strategy for 2019/20

6.11 Government guidance requires an explanation of how credit quality is monitored, what happens when it changes and what additional sources of information are used to assess credit quality.

6.12 In the past a broad list of banks and building societies were utilised; however, over time the number of approved banks and building societies has fallen away because of poor returns relative to the risk of investing. The anticipated position for 2019/20 is that only one bank will be used, Lloyds Bank Plc, and this will be in the context of their banking relationship with the Commissioner.

6.13 As with any bank, the credit environment will be monitored to make a subjective judgement on the creditworthiness of Lloyds, this includes:

- credit ratings from the three main credit rating agencies;
- Credit Default Swaps (CDS) (i.e. the cost of insuring against counterparty default);
- share price and bond yields;
- balance sheet structure;
- macro-economic factors; and
- potential government support.

6.14 The Commissioner remains responsible for all its investment decisions. The Treasury and Pensions team at the County Council will have treasury management meetings with the Commissioner on a quarterly basis where a review of the Lending List will take place.

6.15 Under stressed market conditions, additional meetings with the County Council’s Treasury and Pensions team may take place at very short notice. A decision may be made to adjust the Commissioner’s investment risk profile; the end result may involve moving investments to lower risk counterparties or instruments.

Money Market Funds

6.16 Money Market Funds (MMF's) are pooled investment vehicles consisting of money market deposits and similar instruments. MMF's are used by the Commissioner currently and more widely by other public and private sector bodies.

6.17 Existing MMFs are expected to be compliant to new EU regulations by January 2019. As part of the reforms, most short term MMF's will convert from a Constant Net Asset Value (CNAV) to a Low Volatility Net Asset Value (LVNAV) structure.

6.18 The assets of LVNAV MMF's are marked to market, meaning the dealing NAV (unit price) may fluctuate. However MMF's will be allowed to maintain a constant dealing NAV provided they meet strict new criteria and minimum liquidity requirements. Public debt CNAV MMF's will still be available where 99.5% of assets are invested in government debt instruments.

6.19 MMF's proposed for use would be 'AAA' rated, the highest possible credit rating, and they would have the following attributes:

- Diversified – MMF's are diversified across many different investments, far more than could be achieved individually.
- Same day liquidity – this means that funds can be accessed on a daily basis.
- Ring-fenced assets – the investments are owned by the investors and not the fund management company.
- Custodian – the investments are managed by an independent bank known as a custodian, who operates at arms-length from the fund management company.

6.20 All treasury activity carries an element of risk and MMF's are no different. In the event of a further financial crisis, the failure of one or more of an MMF's investments could lead to a run on the MMF as investors rush to redeem their investment. This could then spread to other MMF's as investors take flight from this asset class. The new MMF regulations look to limit some of these risks.

6.21 The very low interest rate environment also threatens the ongoing continuity of MMF's. Each MMF charges a fee and this could mean that interest earned became negative after its deduction. If this problem arose then it would be a matter of moving funds to an alternative class of investment. However this threat has receded to some degree with the recent rise in Bank Rate.

6.22 All of these issues point towards the fundamental need for diversification across investment categories. This issue is dealt with later in this report (see **paragraph 8.28**).

Banking

6.23 The PCC's banking provider is Lloyds Bank. Funds are retained with Lloyds Bank each night earning interest at a market rate; the amount retained will be set in line with the diversification policy set out at **paragraph 8.29.**

6.24 In respect of the Bank ring-fencing legislation referred to in **paragraph 6.2**, Lloyds Bank has a relatively small investment banking operation meaning that 97% of the bank's assets remained within the 'retail' ring-fence. The Commissioner's business with Lloyds Bank will take place within the 'retail' ring-fence (Lloyds Bank Plc) and not form part of their investment banking operations (Lloyds Bank Corporate Markets).

6.25 Long term credit rating issued by the three major agencies indicate there have been upgrades for some ringfenced 'retail' banks and downgrades for some non-ringfenced 'investment' banks. Lloyds Bank Plc has seen a credit ratings upgrade; should the Lloyds credit rating fall, then small balances may be retained with the bank for operational efficiency. The Commissioner will continue to seek information on any developments from the Treasury team at the County Council with a course of action to be determined by the Director of Finance at the Commissioner.

Investment duration

6.26 The specified investments set out in this report are of short duration. Funds invested with banks, either through a MMF or the Commissioner's banker, are liquid and available at same day notice. Other regulation investments may be invested for up to 12 months.

6.27 The current lending list is shown at **Appendix 3**. The maximum recommended investment duration for 2019/20 works within the definition of a specified investment, which is to not invest for more than a year.

Investment diversification

6.28 Having determined the list of highly rated counterparties and the duration of investments, the last piece of the process is to overlay the methodology for ensuring diversification. Ensuring diversification is important as it protects the security of the investments by limiting loss in the event of a counterparty default. However, diversification does not provide protection from a systemic failure of the banking sector, although the risk of this has diminished as a result of bail-in banking regulations.

6.29 Financial limits force investments to be spread.

- For regulation investments (the least risk of all) there is no limit. All investments could be placed here.
- For MMF's a limit is in place in order to meet liquidity requirements; £1.5m per MMF.
- For Lloyds Bank a limit is set that minimises processing costs and also provides a small amount of additional liquidity; £0.5m.

6.30 Where cash balances are very low then this may mean that all investments are placed with the MMF’s and Lloyds Bank. However, balances will be within the limits stated above.

6.31 It is proposed that both the application and amendment of this policy are delegated to the Director of Finance at the Commissioner with the outcome reported in the regular treasury management reports to the Finance Panel and the ETA Panel.

Non-specified investments

6.32 Government regulations define non-specified investments as all other types of investment that do not meet the definition of specified investments. In contrast to specified investments, Government guidance indicates that the AIS should:

- set out procedures for determining which categories of Non-specified investments should be prudently used;
- identify such investments;
- state an upper limit for each category of non-specified investment; and
- state upper limits for the total amount to be held in such investments.

6.33 Currently, non-specified investments are not in use due to lower cash balances and the potential for increased risk.

Non-treasury investments

6.34 Under the revised CIPFA Codes and MHCLG Guidance, local authorities may invest in other financial assets and property for financial return, and also make loans and investments for service purposes.

6.35 The revised CIPFA Code and MHCLG Guidance require such non-treasury investments to be assessed as part of the new capital strategy and investment strategy. They should set out the specific policies and arrangements for non-treasury investments and ensure the same robust procedures for the consideration of risk and return are applied to these, as for treasury investments.

6.36 Under the new CIPFA Codes, the Commissioner should also maintain a schedule setting out a summary of its non-treasury investments. The Commissioner does not currently hold any non-treasury investments.

Risk

6.37 Although guidance sets out security and liquidity as being the main treasury risks, they are not the only investment risks faced by the Commissioner. **Appendix 4** sets out a high-level risk assessment for six of the key risks which are summarised in the following table:

Risk	**Assessment**
Security	Low
Liquidity	Low to Medium
Interest rate	Low to Medium
Market	Low
Refinancing	Low to Medium
Regulatory and legal	Low

6.38 Within the PCC's AIS there is a balance to be struck between the security of investments and liquidity; the safest investments are not necessarily the most liquid and so a pragmatic approach must be taken.

6.39 The proposed AIS has been evaluated against these risks and the judgement is that the most significant risks have been reduced as far as possible. This is not to say that all risk has been eliminated which is not possible in treasury terms.

Review of strategy

6.40 Regulations require that the circumstances under which a revised strategy would be prepared should be stated. These circumstances would be a change in:

- the economic environment;
- the financial risk environment;
- the budgetary position; or
- the regulatory environment.

6.41 The responsibility for assessing these circumstances and proposing changes to the strategy is allocated to the Director of Finance at the Commissioner.

Policy on the use of external service providers

6.42 Regulations require that the policy on the use of external providers is disclosed. Currently the Commissioner has no contracted external treasury adviser and this is considered appropriate with the simple arrangements set out.

6.43 The treasury service to the Commissioner is provided by the Treasury team at Staffordshire County Council, who use Arlingclose as their external treasury management adviser. The County Council's contract with Arlingclose was renewed in 2017 following a tender process. The Commissioner could use Arlingclose to provide consultancy advice on an ad-hoc basis should this be considered necessary.

Investment management training

6.44 Regulations require disclosure of the processes for ensuring officers are well trained in investment management. Treasury management is a specialised area requiring high quality and well trained staff with an up to date knowledge of current issues, legislation and treasury risk management techniques.

6.45 The Treasury team at the County Council who provide the treasury service are experienced and attend regular CIPFA and treasury consultant training seminars throughout the year.

6.46 Training needs for the Commissioner's staff who attend quarterly meetings with the Treasury and Pensions team at the County Council are assessed on an ongoing basis by local managers.

SCC Memorandum of Understanding

6.47 Staffordshire County Council provides treasury management and banking services as part of a Memorandum of Understanding (MOU) with the Commissioner. The MOU does not constitute a formal contract but is a document of good practice; it outlines the range of services provided by the Council and the degree of co-operation required from the Commissioner in order for the Council to fulfil its role.

Background Documents:

1. Treasury Management in the Public Services: Code of Practice (CIPFA) (2017)
2. The Prudential Code for Capital Finance in Local Authorities (CIPFA) (2017)
3. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
4. Statutory Guidance on Local Government Investments – Issued under Section 15(1) (a) of the Local Government Act 2003 (2018)
5. Statutory Guidance on Minimum Revenue Provision – Issued under section 21 (1A) of the Local Government Act 2003 (2018)

Policing Treasury Management Strategy Report 2019/20

Treasury Management Indicators

Indicator	**Estimate 2019/20**	**Estimate 2020/21**	**Estimate 2021/22**
1. Interest rate exposures			
a. Upper limit (fixed)	£90m	£91m	£90m
b. Upper limit (variable)	(£30m)	(£30m)	(£30m)
Upper limits of fixed and variable borrowing and investments are required to be set. This limits exposure to both fixed and variable interest rate movements as part of the overall risk management strategy for treasury management activities. Negative figures are shown in brackets; these relate to investments at a variable rate which are not offset by variable borrowings.			
2. Maturity structure of borrowing	Upper Limit	Lower Limit	
Under 12 months	10%	0%	3.4%
12 months and within 24 months	10%	0%	1.7%
24 months and within 5 years	30%	0%	13.1%
5 years and within 10 years	50%	0%	12.5%
10 years and above	100%	25%	69.3%
This indicator identifies the amount of loans maturing in specified periods. The overarching principle is that steps should be taken from a risk management point of view to limit exposure to significant refinancing risk in any short period of time. *As a result no more than 10% of fixed rate loans are planned to mature in any one financial year.*			
3. Total principal sums invested for periods longer than a year	£	£	£
Any investments made for longer than a year will be in accordance with the limits on non-specified investments.	nil	nil	nil
4. Borrowing in advance of need (maximum debt)	100%	100%	100%
This indicator sets the maximum loans as a proportion of the borrowing need. In 2019/20 the strategy is not to borrow in advance, hence the indicator is set at 100%.			

Appendix 2

Policing Treasury Management Strategy Report 2019/20

Risk assessment – Borrowing strategy

Risk	Risk description	Relevance to borrowing	Key control	Assessment	Borrowing strategy
Security	A third party fails to meet its contractual obligations (i.e. counter party risk).	Unlikely there would be a failure between the agreement to borrow and sums being received. Exposure to investment risk if borrow in advance and invested until needed.	Usually borrow from the Government (PWLB or its successor body) with 2 day gap between agreement to borrow and receipt of money.	**LOW**	Use of cash to fund debt reduces this risk. There is insufficient cash to fully fund debt so it is likely that borrowing will be required.
Liquidity	Cash is not readily available when it is needed.	Usually borrow for capital from Government (PWLB or its successor body). Can also borrow for the short-term e.g. from other local authorities.	Prudential rules on borrowing and consideration of whether Government is secure.	**LOW to MEDIUM**	Use of cash to fund debt increases this risk as liquidity is reduced when borrowing is avoided. Any increase in borrowing decreases this risk.
Interest rate	Unexpected <u>reduction</u> in short term interest rates.	Depends on the mix between fixed and variable rate borrowing. Higher exposure to variable rate borrowing helps the budget.	The control is set out below.	**LOW to MEDIUM**	Pursuing a strategy of using cash reduces the overall net exposure to sudden interest rate falls.
Interest rate	Unexpected <u>increase</u> in short term interest rates.	Depends on the mix between fixed and variable rate borrowing. Lower exposure to variable rate borrowing helps the budget.	Limit variable rate borrowing to a relatively small proportion (e.g. 20%).	**LOW to MEDIUM**	20% limit provides a suitable risk control.

Risk	Risk description	Relevance to borrowing	Key control	Assessment	Borrowing strategy
Market	The market value of loans change substantially (i.e. how much is the borrowing strategy exposed to long term interest rate change).	How much risk is built into the maturity profile of the loans structure.	This is inversely linked to refinancing risk below.	**MEDIUM**	Use of cash will shorten the duration of the loan portfolio and reduces this risk. Without the use of cash this risk assessment would probably be high.
Refinancing risk	Maturing transactions cannot be renewed on similar terms.	To avoid a high level of borrowing over a short period with exposure to high interest rates.	The Commissioner has a policy of limiting maturing loans to 10% of the loans portfolio.	**MEDIUM**	Using cash to fund debt potentially increases the refinancing risk. Without the use of cash this risk assessment would probably be low.
Regulatory and legal risk	Rules governing local government borrowing are changed or amended without notice, which has happened in the recent past.	Local government heavily reliant upon PWLB or its successor body. Cost and ability to reschedule / manage loans are determined by the Government. The Government could close the PWLB or is successor body and force local authorities to use market loans for all new borrowing.	Market loans will be evaluated and will be taken if they are good overall value.	**MEDIUM**	Use of cash means that PWLB (or its successor body) loans may not be taken. However there is insufficient cash to fully fund debt in the medium term so it is likely that borrowing will be required. If the PWLB or its successor body was closed to new business then other loans would have to be taken.

Policing Treasury Management Strategy Report 2019/20

Lending List – December 2018	
	Time Limit
Regulation Investments	
UK Government DMADF account	6 months
UK Local Authority	12 months
Bank	
Lloyds (as banker) (£0.5m maximum)	call only
MMF's	
State Street (£1.5m maximum)	call only
Morgan Stanley (£1.5m maximum)	call only
Aberdeen Standard (£1.5m maximum)	call only

Policing Treasury Management Strategy Report 2019/20

Risk assessment - Investments

Risk	Risk description	Relevance to investment	Key control	Assessment	Approved Investment Strategy (AIS)
Security	A third party fails to meet its contractual obligations (i.e. counter party risk).	Crucial that money invested is returned (principal and interest).	Relies on credit management policy including; credit risk, duration of investment and amount as well as an ongoing review of the credit environment. Prudential limit on investment over 1 year.	**LOW**	Use of the investments identified within the AIS reduces this risk to a low level. The borrowing strategy identified will reduce cash balances and the resulting security risk. With the exception of regulation investments, counterparties also have a financial limit to ensure funds are spread amongst them. Overall this remains a low risk strategy.
Liquidity	Cash is not readily available when it is needed.	Need to plan investment to match cash requirements.	Managed through detailed cash flow forecast and investments in highly liquid funds.	**LOW to MEDIUM**	Same day access accounts are held with three MMF's. Balances are held with Lloyds Bank Plc overnight on account. Cash flow plans are completed annually and regularly updated.
Interest rate	Unexpected <u>reduction</u> in Interest rate.	Reduces the return on investment and reduces the level of reserves.	Can reduce risk by; A) netting off investment against borrowing to reduce net exposure B) investing for longer periods.	**LOW**	Investments will be mainly short term – this does not protect against an interest rate reduction. Although interest rates are expected to rise, interest rates are still at historically low levels.

Risk	Risk description	Relevance to investment	Key control	Assessment	Approved Investment Strategy (AIS)
Interest rate	Unexpected increase in interest rates.	To take advantage of the unexpected return, would need to keep investment short term and increase the amount of cash invested (e.g. by not using cash in lieu of borrowing).	Controlled through the overall strategy.	**MEDIUM**	Current policy allows upturns to be taken advantage of as investments are not fixed for long periods. Using cash to fund debt (the proposed borrowing strategy) reduces this risk as the overall exposure to short term interest rates is less.
Market	Unexpected need to liquidate market instrument quickly and accept 'price on the day'.	Only relevant if invest in market instruments (e.g. CD's, gilts).	Limit investment in market instruments or alternatively have capacity to borrow to avoid need to liquidate. Controlled by limits on non specified investments.	**LOW**	Market instruments are not in use.
Refinancing risk	Maturing transactions cannot be renewed on similar terms.	Reflected in the term (duration) of investments. Shorter term investments have a higher refinancing risk.	Proportion of investments maturing in the short term.	**LOW to MEDIUM**	The current policy is to invest in the short term. There is an increased risk with this strategy due to frequent 'refinancing' but this is only expected to be advantageous in a rising interest rate environment. Using cash to fund debt (the proposed borrowing strategy) reduces this risk as the overall exposure to short term interest rates is less.

Risk	Risk description	Relevance to investment	Key control	Assessment	Approved Investment Strategy (AIS)
Regulatory and legal risk	Rules governing local government investment powers are changed or amended without notice.	Investment powers are granted through statute and guidance.	None.	**LOW**	The current policy of using cash in lieu of borrowing reduces the authority's dependency on interest receipts. The AIS is low risk and uses liquid and conservative investment instruments.

Report to the Police Fire and Crime Panel – 28th January 2019

Reserves Strategy

Report of the Staffordshire Commissioner

Introduction

In addition to his existing role overseeing Staffordshire Police, the Staffordshire Commissioner became responsible for the governance of the Staffordshire Fire and Rescue Service from August 2018. However both remain separate organisations, with separate budgets, staff and governance processes.

This report will detail the reserves strategy for Staffordshire Police only; a separate report will follow for the Staffordshire Fire and Rescue Service. When reference is made to the Commissioner as part of this report, this represents his Staffordshire Police role only.

Recommendations

a) That the proposed reserves strategy for the 2019/20 financial year is noted. The main features are: -

- An intention to maintain a minimum 2% in general fund reserve and aim to return to 3% general fund reserve resilience at the start of 2019/20;
- An intention to maintain minimum reserves for other purposes;
- An intention to use the capitalisation directive flexibility to use capital receipts to create reserves available to invest in Transformation activity

Matthew Ellis
Staffordshire Commissioner

Contact Officer: Jane Heppel
Telephone: 01785 232449
Email: jane.heppel@staffordshire-pfcc.pnn.gov.uk

1 Summary

1.1 The Commissioner aims to establish reserves which provide a cushion in times of hardship and a source of pump priming in times of development, thereby motivating innovation in service delivery.

1.2 The Commissioner has confidence that the Force is now capable of maintaining the tight financial control that is required in order to run with minimal safe reserves and that the Chief Constable is capable of further tightening that control despite the challenges of policing in the current social and economic climate.

1.3 By maintaining a minimal safe level of reserves the Commissioner aims to ensure that:

- Policing responses to emergency situations can be managed without cutting back other vital services;
- Today’s taxpayers do not solely fund services and investments which will deliver returns long into the future;
- Cash can be retained at a reasonable level to underpin good treasury management practices.

2 Objectives

2.1 The Commissioner maintains reserves to protect against risk, ensure contingencies are in place and to support investment in future projects which contribute to meeting the aims of the Commissioner’s Safer, Fairer, United Communities Strategy.

2.2 The Commissioner manages risk by ensuring that the potential impacts of future events are evaluated for risk, based on the likelihood that they may occur and the severity of any impact. Mitigating actions are then identified to reduce the exposure and appropriate plans are put in place.

2.3 The Commissioner maximises the cash advantage of holding reserves which allows short term borrowing for capital investment to be reduced and which is a cost effective way of managing treasury needs.

2.4 Reserves are specifically held in order to further the Commissioner's Strategic Policing Priorities:

Modern Policing
"A police force that is fit for a changing future."

Early intervention
"Identifying and tackling root causes at the earliest opportunity."

Supporting Victims and Witnesses
"Making it easier for victims and witnesses to get the support they need, when they need it."

Managing Offenders
"Preventing offending in the first place and reducing reoffending."

Public Confidence
"Creating opportunities for communities to shape policing, with greater transparency and openness to increase confidence in policing."

3 Regulations relating to Reserves

3.1 The requirement for financial reserves is acknowledged in statute: sections 32 and 43 of the Local Government Finance Act 1992 require precepting bodies such as the Commissioner to have regard to the level of reserves needed for meeting estimated future expenditure or revenue account deficits from previous years when calculating and balancing the budget requirement.

3.2 The Local Government Act 2003 Section 25 makes it the Director of Finance's duty to report on the robustness of estimates and adequacy of reserves when the Police Fire and Crime Panel is considering the budget requirement.

3.3 CIPFA's Prudential Code requires the Director of Finance to have full regard to affordability when making recommendations about the Commissioner's Capital Programme. In considering the affordability of the Commissioner's capital plans, the Head of Finance is required to consider all of the resources available to the Commissioner, estimated for the future, together with the totality of its capital plans and revenue forecasts for the forthcoming year and the following two years. There is a requirement for three year revenue forecasts across the public sector and this is achieved through the Medium Term Financial Plan (MTFP).

3.4 These requirements are reinforced by section 114 of the Local Government Finance Act 1988, which requires the Head of Finance to report if there is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves had become seriously depleted or were it to be forecast that the Commissioner would not have the resources to meet its expenditure in a particular financial year.

4 Current Funding Climate

4.1 The pressures on public finances currently and for the medium term are consistently high – this is detailed in the Medium Term Financial Strategy. Whilst the recent draft settlement recognises the pressure on police forces and maintains but does not extend the funding challenge, the long term prospects of having rising need and rising cost met by central government as they were sometimes in the past, are not our current expectation.

4.2 The Commissioner has publicly welcomed extending the powers to raise funding locally by increasing the allowable precept rise, and has utilised this in the current year by increasing the precept by £24.00. He considers that whilst this means that most of the pressures felt by Policing will be financed locally, this correctly increases accountability.

4.3 Therefore, the ability to retain reserves for unforeseen events and circumstances in order to provide for locally led financial resilience becomes more important.

4.4 The Medium Term Financial Strategy also identifies risks in the general Policing landscape and in achieving the required savings to ensure balanced budgets over future years. Holding reserves at a minimal safe level will allow risks to be met without cutting back on existing service provision, should those risks arise.

4.5 The Commissioner does not however hold sufficient reserves to manage the decisions made by others. If government funding policy were to assume that all Forces can absorb increases or make investments from reserves, the Commissioner would expect to be negatively impacted in his future planning and resilience by this decision, by being at the lower end of all Commissioners nationally in terms of the absolute levels of reserves.

5 Reserve Policies and Targets

5.1 The Commissioner’s policy for the General Fund Reserve is for it to hold as a minimum 2% of the net revenue budget of the combined budgets of the Commissioner and the Force. This is currently considered to be a minimal safe level which would afford two incidents of maximum exposure to loss in any one year. In order to achieve this the Commissioner will set a budget which establishes a general fund reserve of 3% of net revenue budget requirement at the start of each financial year in the budget setting process.

5.2 The maximum exposure to loss is understood to be 1% of net budget in the light of the guidance which is issued by the Home Office relating to the Police Special Grant. This guidance establishes that in the event that a Force can prove it has proportionately policed a major incident which has created an unaffordable cost in one year, and that is reviewed by HMICFRS, the Force can claim for costs exceeding 1% of the net budget for each incident. This guidance was reissued in November 2017 and we expect it to continue to be in place during the period of the MTFP.

5.3 At the end of March 2019 the General Fund is estimated to be at 2.5% of the net budget requirement for the following year. That requires £1.3m of funding to be found as the first call on the budget in 2019/20 to recover the General Fund back to safe levels. This will change if there is any over or underspend in 2018/19.

5.4 The insurance provision and reserve level has be assessed after the insurance fund valuers biennial assessment. £700k will be put into the budget in 2019/20 to provide for an annual top-up (this is the historic average of the drain on the reserve annually) and an additional £100k will be set aside p.a. to continue to rebuild the reserve to allow for the impact of future litigation. £100k is our maximum exposure on a large case, being the excess on the insurance policy.

5.5 The use of capital receipts will be considered during the closure of the accounts and will be applied in order to:

- ensure that reserves levels are maintained according to other policies in this section;
- reduce as much as possible the drain on the revenue account in future years by funding high cost, short life assets from receipts instead of borrowing or revenue provision;
- provide a future fund for capital investment

5.6 The Commissioner has set a target for the Transformation fund to be at or near to £1M, and the intention is that this fund will be self-financing as savings created by Transformation projects are paid back into the fund. As the fund has been topped up by capital receipts this fund can only be used for Transformation and not business as usual costs.

5.7 After meeting immediate investment needs and subject to the continuation of national policies on police funding, the Commissioner will look to create an Investment Fund, also £1M. This will be a new reserve and act as a local version of the national Police Transformation Fund. It will pump prime initiatives with the Force and partner agencies thereby ensuring that the Commissioner can respond in year at pace to ensure his priorities are fulfilled, innovation is supported but ensures that one off investments do not become 'built in' to base budgets.

5.8 The Commissioner is conscious that technically all reserves belong to him and in light of his treasury management responsibilities this is as it should be. However he would like to work with the Chief Constable to establish a local reserve which the Chief could use in light of good budgetary control practice to enable his own invest to save projects, funded by underspends arising from good management practice in the Force.

6 Types of Reserves

6.1 The Statement of Accounts fully explains the nature and makeup of the reserves of the Commissioner. These break down into usable and unusable reserves and this strategy relates solely to the usable reserves.

6.2 Unusable reserves are those which have been created as a result of the difference between accounting under IFRS and the need to make statutory provision for meeting expenditure which is classified as General Fund expenditure. They are described in Appendix 1.

6.3 General Fund, Unrestricted and Earmarked Reserves are the only reserves which the Commissioner may use in order to fund past, current or future year service levels above the revenue and grant funding available in year. For 2018/19 the reserves held are as follows:

- The General Fund is the first place that any deficit or surplus for the year is posted and it holds the accumulation of revenue account (CIES) deficits and surpluses across previous years.
- Unrestricted reserves are those which can be used for any purpose deemed fit by the PCC:
    - Seized vehicle Fund – where a car is seized as a result of an infringement such as failure to insure the vehicle, the Force is entitled to the sale or scrap value of the vehicle after a period of 12 months has passed.
    - MDA Forfeiture Fund – the Misuse of Drugs Act 1971 allowed courts to award assets forfeited by those found guilty to whomever the court decides. The CPS can request that it is the Police Force.
    - POCA Fund – the Proceeds of Crime Act 2002 determined that the Police Force can recover 50% of cash seized and assets confiscated under this Act.
    - Commissioner Development Fund – the Commissioner has an intention to establish a new reserve in 2020/21, which depends on the decision to increase precept in Year 2 of the Medium Term Financial Strategy.
- Earmarked reserves are those which can only be used for the purpose for which they were established:
    - Transformation / Reshaping the Future Reserves – this reserve has been created to help fund the transformation currently taking place in order to achieve the required savings to balance future budgets

- Restructuring – the Chief Constable is implementing a new Target Operating Model and in doing so there are expected to be significant costs of restructuring. This reserve will meet the costs arising from restructuring as a result of Transformation.

- Insurance Reserve - provides for the self-funding of certain uninsurable risks, and also to cover the excess (£100,000) for any unknown claims before the insurance cover is applied and the aggregate stop loss for each year. The reserve covers amounts falling outside the definition of the insurance provision as they are unknown claims which could occur from past or future events.

- Pension Employer Contribution – there are ongoing costs of deficit repair within the LGPS scheme. The scheme performance is unpredictable but previously reserves had been built up against needing to provide for historic losses in the scheme. The cost of meeting these losses is now being met from the General Fund.

- Early Adopter Income – this is the remains of a specific grant for early adoption of a different approach to medical assessment of those held in custody and must be retained and spent only for that purpose.

- Crash Course – working within the Safer Roads Partnership, the Force supports the delivery of crash course training and the proceeds are placed in this fund which is administered jointly with the other partners.

6.4 In addition the Commissioner can use capital receipts flexibly to support expenditure. The sale of certain types of assets (net of the cost of sale) can be applied to the purchase of new assets, or in extraordinary circumstances, costs which would otherwise be met from the General Fund. During the MTFP period the Commissioner intends to promote the sale of surplus assets across his policing estate.

7 <u>Reserve Forecasts</u>

7.1 The current MTFP assumes that reserves will be used in line with the policy at Section 6. Further detail is given in Appendix 2.

	31/03/2019 Estimate £'000	31/03/2020 Budget £'000	31/03/2021 Budget £'000	31/03/2022 Budget £'000	31/03/2023 Budget £'000
Police Incidents – minimum 2% of base	4,610	5,910	5,910	5,910	5,910
Police unfunded pay increase					
General Reserves	**4,610**	**5,910**	**5,910**	**5,910**	**5,910**
Transformation costs	2,036	2,036	2,036	2,036	2,036
Commissioner's Development Fund			1,000	1,000	1,000
Restructuring costs	1,939	-	-	-	-
Earmarked Reserves	**3,975**	**2,036**	**3,036**	**3,036**	**3,036**

Insurance Provision	-	100	200	300	400
LGPS and other Pension Provisions	-	-	-	-	-
Other provisions	-	-	-	-	-
Provisions	**-**	**100**	**200**	**300**	**400**
Other earmarked reserves	438	488	538	588	588
TOTALS	**9,023**	**8,534**	**9,684**	**9,834**	**9,934**

8 Procedure for the Use of Reserves

8.1 A reserve can only be established with the approval of SGB and the support of the Commissioner's Director of Finance. New reserves will only be established for specific and appropriate purposes or in response to funding received which must be ring-fenced.

8.2 As part of the annual budget process the Commissioner's Director of Finance will consider and make recommendation to SGB whether there is a need to include a contribution to the general fund balance or any earmarked reserve.

8.3 A reserve contribution or drawdown approved as part of the annual budgeting cycle can be made with no further approvals.

8.4 Any transfers to and from earmarked reserves are reported to SGB.

8.5 Approval of the statement of accounts by the relevant CFO/Director of Finance and Chief Constable or Commissioner is sufficient approval for any further drawdowns from earmarked reserves in-year.

9 Monitoring

9.1 The forecast use of reserves is reported to SGB on a monthly basis as part of the Budget Monitoring procedures.

9.2 The overall level and purpose of reserves is reviewed on an annual basis by the Ethics and Transparency Panel (ETAP) during the budget setting process.

9.3 As part of the review ETAP consider for each earmarked reserve:

- The reason for/ purpose of the reserve
- How and when the reserve can be used
- Its relevance and adequacy

9.4 During the year changes may occur in the MTFP which will affect this strategy. Such changes will be monitored by the Commissioner's Director of Finance and reported to the Executive Board.

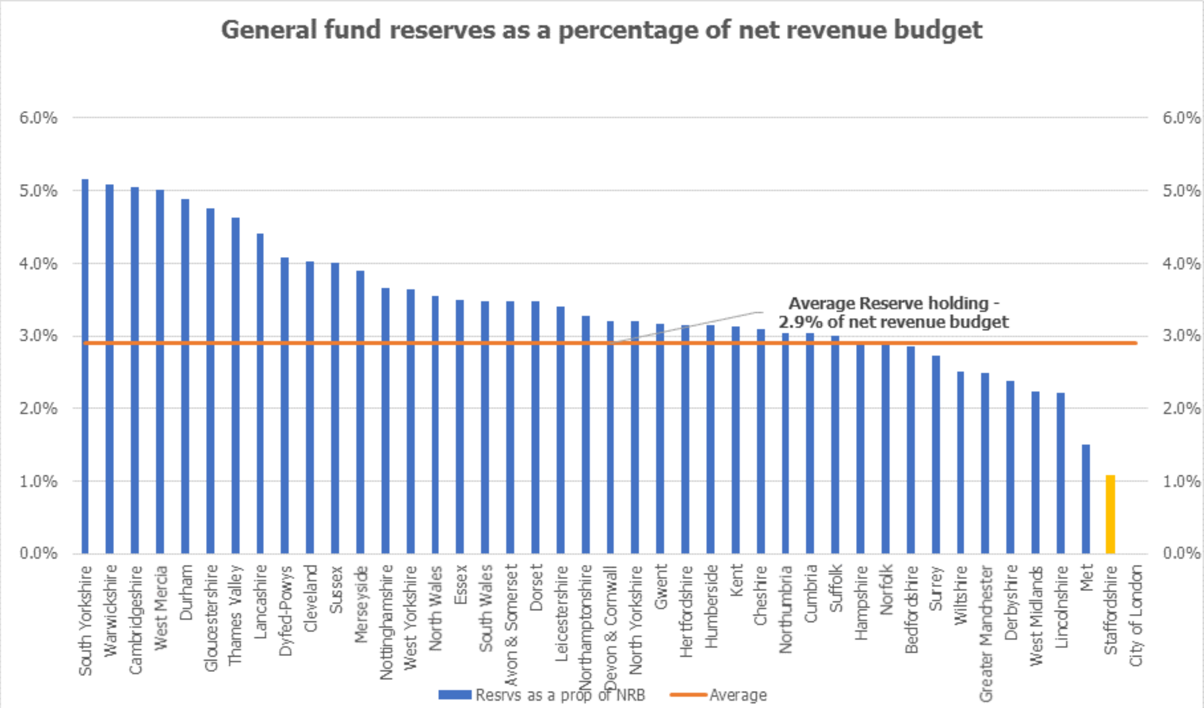
10 Risk Analysis

10.1 There are significant risks which affect the level of reserves to be maintained and the type of risks that have been considered, but which also be kept under review are:

- Future funding gap - the risk that due to the economic conditions, that are likely to be further real terms reductions in levels of revenue support grant and reductions in specific grants
- Reduced capital receipts
- Increased demand on services / emergency services giving rise to a special grant claim
- Uninsured legal liabilities – for example, personal injury claims
- Pace of progress towards delivering planned Transformation savings
- Organisational Restructuring – for example, redundancy and pension costs
- Repair or replacement of assets – for example, buildings

11 <u>Sector Comparison</u>

11.1 Staffordshire's current level of reserves is at the bottom end of the sector holdings.



11.2 Staffordshire's earmarked reserves have fallen over the past few years during a period of change. Transformation costs which could have been met from capital receipts were charged to reserves when sales slipped into a new financial year.

11.3 In future, tighter budget management should mean that yearend variances are less likely that they were in the past yet with low reserve levels the impact of overspends against budget becomes a greater risk.

Unusable Reserves

- Accumulated Absences Account: this holds the notional cost of absences earned but not taken in the year e.g. flexi time and annual leave.
- Revaluation Reserve: whereas in the private sector the revaluation of assets customarily goes through the revenue account (CIES), in the public sector there are circumstances where this does not occur, and in those circumstances this reserve takes the adjusting amount.
- Collection Fund Adjustment Account: this carries timing differences in the recognition of council tax as revenue.
- Capital Adjustment Account: this account carries many of the adjustments relating to depreciation, funding and write-offs which would be charged to the revenue account (CIES) by most private sector bodies. It represents the differences between accounting for assets on a statutory funded basis and an IFRS basis.
- Pensions Reserve: the Commissioner accounts for post-employment benefits in the revenue account (CIES) as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Commissioner makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Commissioner Group has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

At the end of 2017/18 the levels of unusable reserves were as follows. As the adjustments which create a change in these reserves have not yet been calculated and cannot reliably be forecast there is no change to the forecast outturn on these reserves for yearend.

	Group			
	Balance 1 April £000	Transfers Out £000	Transfer In £000	Balance 31 March £000
Accumulated Absences Account	(3,824)	0	448	(3,376)
Revaluation Reserves	8,940	(197)	1,203	9,946
Capital Adjustment Account	14,325	(6,649)	3,142	10,818
Deferred Capital Receipts	444	(80)	0	364
Pension Reserve	(2,131,516)	(120,863)	260,298	(1,992,081)
Collection Fund Adjustment Account	1,602	0	21	1,623
Total	**(2,110,029)**	**(127,789)**	**265,113**	**(1,972,706)**

Appendix Two – Detailed Reserves Forecast

	31/032018 Opening Balance	2018/19 Top Up £'000	2018/19 Draw Down £'000	**31/03/2019 Estimate £'000**	2019/20 Top Up £'000	2019/20 Draw Down £'000	**31/03/2020 Estimate £'000**	2020/21 Top Up £'000	2020/21 Draw Down £'000	**31/03/2021 Estimate £'000**	2021/22 Top Up £'000	2021/22 Draw Down £'000	**31/03/2022 Estimate £'000**	2022/23 Top Up £'000	2022/23 Draw Down £'000	**31/03/2023 Estimate £'000**
Police Incidents – minimum 2% of base	2,857	1,753	-	4,610	1,300		5,910			5,910			5,910			5,910
Police unfunded pay increase																
General Reserves	**2,857**	**1,753**	**-**	**4,610**	**1,300**	**-**	**5,910**	**-**	**-**	**5,910**	**-**	**-**	**5,910**	**-**	**-**	**5,910**
Transformation costs	15	2,021		2,036			2,036			2,036			2,036			2,036
Commissioner's Development Fund				-			-	1,000		1,000			1,000			1,000
Restructuring costs		1,939		1,939	2,500	- 4,439	-			-			-			-
Earmarked Reserves	**15**	**3,960**	**-**	**3,975**	**2,500**	**- 4,439**	**2,036**	**1,000**	**-**	**3,036**	**-**	**-**	**3,036**	**-**	**-**	**3,036**
Insurance Reserve	54	700	- 754	-	800	- 700	100	800	- 700	200	800	- 700	300	800	- 700	400
LGPS and other Pension Provisions				-			-			-			-			-
Other provisions				-			-			-			-			-
Provisions	**54**	**700**	**- 754**	**-**	**800**	**- 700**	**100**	**800**	**- 700**	**200**	**800**	**- 700**	**300**	**800**	**- 700**	**400**
Other earmarked reserves	1,261			438			488			538			588			588
TOTALS	**4,187**	**6,413**	**- 754**	**9,023**	**4,600**	**- 5,139**	**8,534**	**1,800**	**- 700**	**9,684**	**800**	**- 700**	**9,834**	**800**	**- 700**	**9,934**

Page 83

Appendix Three – Contribution by the Reserve to Force and Commissioner Strategic Objectives

	Contribution to Strategic Objective	**Category of Reserve**	**Specific Projects Funded by Reserve (example)**
General Fund	Modern Policing	Held in accordance with sound principles of good financial management	This reserve is maintained at a target level of 2% of net budget requirement which is the maximum exposure to unforeseen cost in any one year before Home Office support may be sought
Unrestricted Funds			
Seized Vehicle Fund	Supporting Victims and Witnesses	Funding for planned expenditure on projects and programmes over the period of the current Medium Term Financial Plan	Funding for software to allow victims to upload CCTV data direct to Police systems
MDA Forfeiture Fund	Early Intervention	Funding for planned expenditure on projects and programmes over the period of the current Medium Term Financial Plan	SPACE – the Commissioner's programme for Young People
POCA Fund	Managing Offenders Early Intervention	Funding for planned expenditure on projects and programmes over the period of the current Medium Term Financial Plan	To help offenders address reoffending when they are dependent on drugs or alcohol
PCC Development Fund	Public Confidence	Funding for planned expenditure on projects and programmes over the period of the current Medium Term Financial Plan	The Chief Constable will propose projects for the Commissioner's consideration
Restricted Funds			
Transformation Fund	Modern Policing	Funding for planned expenditure on projects and programmes over the period	SP25 the Chief Constable's

	Contribution to Strategic Objective	Category of Reserve	Specific Projects Funded by Reserve (example)
		of the current Medium Term Financial Plan	Transformation Programme Costs of on boarding major new contracts
Restructuring	Modern Policing	Funding for planned expenditure on projects and programmes over the period of the current Medium Term Financial Plan	Redundancy and exit packages
Insurance	Public Confidence	Held in accordance with sound principles of good financial management	N/A
Pension Employer Contribution	Public Confidence	Held in accordance with sound principles of good financial management	Pension deficit repair in LGPS scheme
Early Adopter Income	Modern Policing	Funding for planned expenditure on projects and programmes over the period of the current Medium Term Financial Plan	Redesigning approaches to medical assessment of those held in custody.
Crash Course	Early Intervention	Funding for planned expenditure on projects and programmes over the period of the current Medium Term Financial Plan	Providing driver training

Report to the Police Fire and Crime Panel – 28th January 2019

Capital Strategy and

Minimum Revenue Provision Policy

Report of the Staffordshire Commissioner

Introduction

In addition to his existing role overseeing Staffordshire Police, the Staffordshire Commissioner became responsible for the governance of the Staffordshire Fire and Rescue Service from August 2018. However both remain separate organisations, with separate budgets, staff and governance processes.

This report will detail the capital strategy for Staffordshire Police only; a separate report will follow for the Staffordshire Fire and Rescue Service. When reference is made to the Commissioner as part of this report, this represents his Staffordshire Police role only.

Recommendations

a) That the proposed capital strategy for the 2019/20 financial year is noted. The main features are: -

- to focus expenditure in the areas which best support the other strategies of the Force and the Commissioner;
- to adopt a balanced portfolio approach to funding the programme.

Matthew Ellis

Staffordshire Commissioner

Contact Officer: Jane Heppel

Telephone: 01785 232449

Email: jane.heppel@staffordshire-pfcc.pnn.gov.uk

1. Introduction

1.1 The Capital Strategy forms a key part of the Commissioner’s overall Corporate Planning Framework. It provides a mechanism by which the Commissioner’s capital investment and financing decisions can be aligned over a medium term (five year) planning horizon.

1.2 The Strategy sets the framework for all aspects of the Commissioner’s Police capital and investment expenditure; including planning, outcomes, prioritisation, management, funding and repayment. The Strategy has direct links to the other Commissioner Management Plans such as the Asset Management Plan and IT strategy and forms a key part of the Commissioner’s Medium Term Financial Strategy (MTFS).

1.3 There are three main areas of spend which feature within the Capital Programme; Estates and Facilities, Transport and Information Systems and Technology. Business Services interlinks these areas, and develops processes to ensure procurement and value for money is enveloped in each area. There are independent strategies in place which demonstrate the requirements from each of these individual areas, and how they are linked into the procurement strategy, and how they relate to the Force and Commissioner policing plans.

2. Objectives

2.1 The key aims of the Capital Strategy are to:

- provide a clear set of objectives and a framework within statutory legislation that proposes new capital expenditure to be evaluated to ensure that all new capital investment is targeted at meeting the pledges and the Commissioner’s Vision, Aims and Priorities;
- set out how the Commissioner identifies, programmes and prioritises capital requirements and proposals arising from business plans submitted through a stringent gateway appraisal mechanism comprising of Strategic Outline Cases (SOC) and Full Business Cases (FBC);
- consider options available for funding capital expenditure and how resources may be maximised to generate investment in the area and to determine an affordable and sustainable funding policy framework, whilst minimising the ongoing revenue implications of any such investment;
- identify the resources available for capital investment over the MTFS planning period;
- ensure the strategy has an overall balance of risk on a range of investments over timespan, type of investment and rate of return;
- establish effective arrangements for the management of capital expenditure including the assessment of project outcomes, budget profiling, deliverability, value for money and security of investment;

- deliver projects that focus on delivering the long term benefits to policing in Staffordshire listed below:

Modern Policing
"A police force that is fit for a changing future."

Early intervention
"Identifying and tackling root causes at the earliest opportunity."

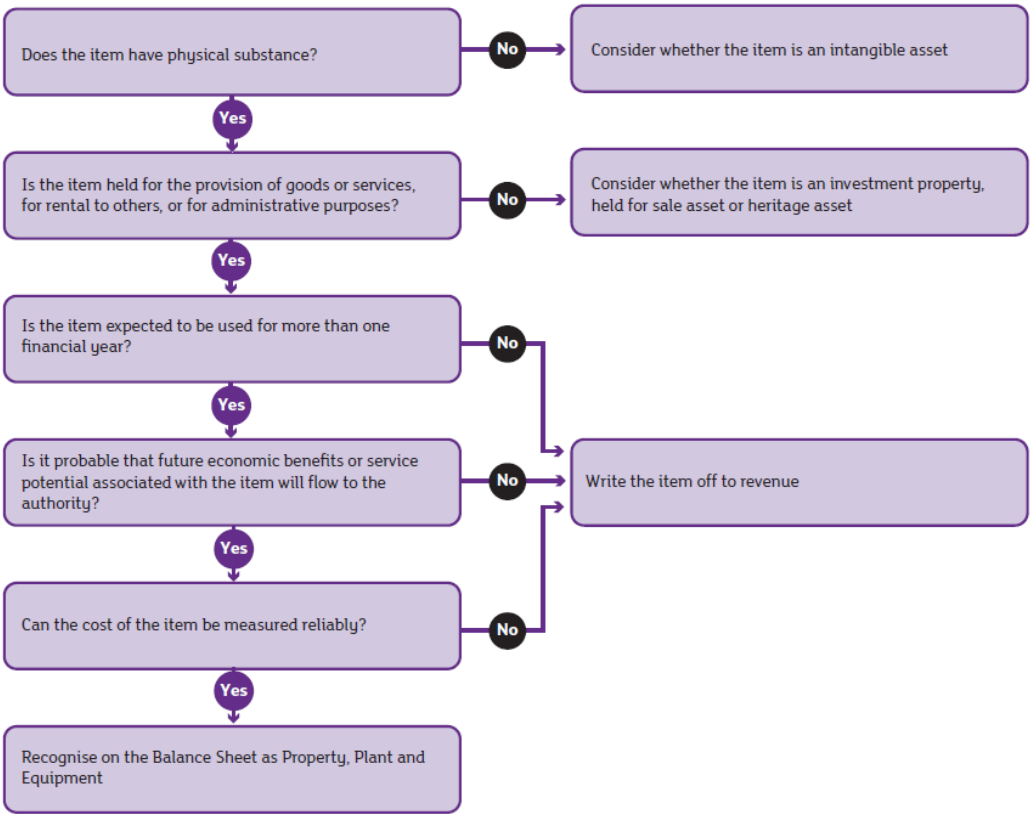
Supporting Victims and Witnesses
"Making it easier for victims and witnesses to get the support they need, when they need it."

Managing Offenders
"Preventing offending in the first place and reducing reoffending."

Public Confidence
"Creating opportunities for communities to shape policing, with greater transparency and openness to increase confidence in policing."

3. Capital

3.1 Only spend that meets the qualifying criteria as laid out in the Code of Practice are considered for capitalisation. The test is as follows:



3.2 Even if spend meets the test it must still be above the approved de minimis limit in order to be capitalised. The limit is £10,000 except for vehicles which are all classed as assets and included on the asset register.

4. Governance of the Capital Programme

4.1 Governance processes will be put in place and adhered to, following standing orders and financial regulations to ensure that available resources are allocated optimally and deliver value for money, and that capital programme planning is determined in parallel with the service and revenue budget planning process within the framework of the MTFS. These include: -

- The Strategic Governance Board (SGB) which is ultimately responsible for approving the capital strategy for investment and the Capital Programme, for approving changes to the programme within financial regulations and for the approval of any Final Business Cases (FBC);
- The Ethics and Transparency Panel which is responsible for scrutiny of the MTFS documents and the Capital budget monitoring reports and can make recommendations to the Strategic Governance Board (SGB).

4.2 The Commissioner will require the Chief Constable to put in place mechanisms which will seek to ensure that there is an integrated approach to addressing cross-cutting issues and developing and improving service delivery through its capital investment in pursuance of the Commissioner's over-arching aims. These include: -

- The Force Strategy Board which has overall responsibility for the management and monitoring of the capital programme and ensuring the impact on service delivery is well-managed and ensures value for money;
- Corporate Resourcing and Planning Board which has overall responsibility for the financial management, funding and monitoring of the capital programme, approving virements within financial regulations and for sign off of Outline Business Cases (OBC) after legal and financial approval.
- Investment Board which has responsibility for ensuring the coherence, value for money and programme planning of the capital programme, agreeing virements within financial regulations and for providing information to the Force Strategy Board on service delivery impact.
- Special interest Boards that have the responsibility for overseeing and approving business cases for investments prior to sign off by Corporate Resourcing and Planning Board;
- Specific Project boards with wide ranging membership.

4.3 New programmes of expenditure will be appraised and grant allocation programmes follow a clearly defined gateway process.

- For new projects and programmes an Outline Business Case (OBC) will be submitted that needs to include capital investment, repayment mechanisms, revenue impacts and full lifetime costings. These will be scored against an agreed weighting and appropriate recommendations made to CRPB.
- Subject to the outline proposal being approved a detailed Full Business Case (FBC) be (which will be appropriate to the amount and/or complexity) submitted and appraised prior to being appended to a report to be approved by the Commissioner.
- Monthly reports will continue to be submitted to the Force Strategy Board that identify changes to this programme to reflect: -

    - New resource allocations
    - Slippage in programme delivery
    - Programmes reduced or removed
    - Virements between schemes and programmes to maximise delivery
    - Revisions to spend profile and funding to ensure ongoing revenue costs are minimised.

4.4 Depending on the size of the project a programme board may be set up with key stakeholders to manage and take the project forward, and identify any risks which could affect the project or the organisation. Any risks deemed high for the organisation as a whole will be taken to the Risk Management Group.

4.5 Regular reports will also be provided to Ethics and Transparency Panel on the proposals and returns from the investments made.

5. Capital Priorities

5.1 When the Commissioner came into office he made a pledge that the Staffordshire Force would become the most technologically advanced local force in the UK.

5.2 Underlying the capital strategy is the recognition that the financial resources available to meet the Commissioner's five priorities as laid out in his Safer, Fairer, and United Communities Strategy are constrained in the current economic and political climate. Therefore the Commissioner must seek ways in which investment decisions can be no less than self-sustaining or generate positive returns both in terms of meeting corporate objectives and producing revenue savings.

5.3 The AMP identifies significant backlog maintenance issues across the Commissioners property portfolio. It is anticipated that this can be mitigated through the strategic accommodation strategy. The AMP identifies the necessary investment needed to bring the remaining asset stock up to current standards which would require a level of investment that is currently unaffordable. Given the Commissioners priority is to dispose of any surplus assets then the limited capital resources available via grant, capital receipts and private sector are prioritised to maximise outputs with minimal ongoing future revenue costs.

5.4 The bringing together of blue light services under a single governance route to the Commissioner provides opportunities to co-locate and share assets to the good of the community and the services that serve those communities. Where partnership working offers an opportunity to develop good practices or leads to efficiencies within the Force the Commissioner will also consider co-locating and sharing. Every opportunity to share will be explored as a principle before single purchase of assets.

5.5 Subject to full or partial cost recovery business cases the Commissioner will: -

- measure proposed investment against the five priorities in his Safer, Fairer, United Communities Strategy and invest accordingly;
- reduce the backlog maintenance liability by rationalising office accommodation and other operational estate. The rationalisation will be in the form of moving out of leased / rented accommodation and sales of surplus assets;
- invest in energy saving initiatives which reduce future running costs and reduce CO_2 emissions;
- invest in opportunities to provide a future income stream to support revenue through the optimisation of resources;
- invest in ICT hardware and software on a case by case basis. The primary focus being channel shift into improved technologies on spend to save basis;
- support investment in joint virtual or physical delivery platforms which support data sharing, improved joint working and sharing of knowledge particularly where it is possible to secure significant third party contributions or grant funding.

6. Funding Approach

6.1 The Commissioner's capital investment falls within, and needs to comply with, the "Prudential Code for Capital Finance in Local Authorities" (The Code). Under the Code local authorities have greater discretion over the funding of capital expenditure especially with the freedom to determine, within the regulatory framework of the Code, the level of borrowing they wish to undertake to deliver their capital plans and programmes.

6.2 There are a range of potential funding sources which can be generated locally either by the Commissioner itself or in partnership with others. The Commissioner continues to seek new levels of private sector investment to match against its capital programme, this may be additional capital receipts from land sales, developer agreements, joint funding opportunities across the private sector or regional funds on a wide range of projects.

6.3 The strategy, the outcomes of which inform the Medium Term Financial Strategy, is intended to maximise the financial resources available for investment in service provision and improvement within the framework of the MTFP. Whilst at the same time ensuring that each business case has a robust self-sustaining financial model that delivers on the wider outcomes of the strategy.

6.4 The main sources of capital funding are summarised below: -

6.4.1 Central government and regional government

- Basic Formula Grant allocations – Policing bodies are anticipating that formula grants for capital projects will reduce to negligible levels by the end of the current MTFS period. This necessitates a different approach to funding.
- Specific Grant allocations – Grants are allocated in relation to specific programmes or projects and the Commissioner would seek to maximise such allocations, developing appropriate projects and programmes which reflect government and partnership led initiatives and agendas but address priority needs in policing in Staffordshire.
- The Commissioner will continue to bid for future resource allocations using innovative service delivery mechanisms if necessary. For example through the Police Transformation Fund, Enterprise Zones, Regional Growth Fund, Single Growth Fund etc.

6.4.2 Internal Balances

- Interest rates, over recent years, have remained low; therefore external borrowing has been prudent but with the recent potential increase of interest rates, internal borrowing could continue (if the force received surplus capital receipts) to help support the programme. This can help avoid further interest costs impacting the revenue budget to support the capital programme, however there are limitations to the amount of internal funds that can be used, and this is monitored on a regular basis by our Treasury management advisors (Staffordshire County Council) who will propose alternative action when necessary.
- External and Internal borrowing is only used once all other sources of funding has been utilised (excluding excess capital receipts which are used to fund future shorter life projects). Therefore borrowing tends to be used mainly for property and estates projects. However, in recent years, due to lack of other funds, internal borrowing has been required to fund some ISIT projects' spend.

6.4.3 Reserves

- Any funding which has been allocated in a specific year, but is not required until future years will be carried forward in earmarked capital reserves. These reserves will vary from year to year, depending on the level of funding available and the timing of their respective projects.
- Reserves can be created from most sources of funding; Direct Revenue Financing, Grants, receipts, and insurance receipts/reserves.

- Working with other authorities/partners there may be opportunities in securing other additional funding.

6.4.4 Private Sector

- Contributions will continue to be sought from developers towards the provision of public or private assets or facilities. In some cases contributions are to mitigate the impact of their development on communities and often referred to as Section 106. These contributions are usually earmarked for specific purposes in planning agreements and often related to infrastructure projects.

6.4.5 Receipts

- Disposing of surplus assets is a good way to reinvest in the capital programme.
- Receipts will be targeted at the shortest life assets and then their use considered widely within any flexibility allowed by the appropriate government authority.
- In accordance with statutory instruments capital receipts may also be used for the repayment of debt
- The Commissioner will continue to work with the private sector to utilise redundant assets and vacant land to bring them into a useful economic purpose to facilitate regeneration and employment creation. Capital receipts from asset disposal represent a finite funding source and it is important that a planned and structured manner of disposals is created to support the priorities of the Commissioner. Cash receipts from the disposal of surplus assets are to be used to fund new capital investment or offset future debt or transitional costs, included within the new flexibilities.
- The Commissioner will also continue to work with the Connected Staffordshire Commission, CCGs, Health providers, Local Authorities, Higher Education providers and other public agencies to consider projects that are to the mutual benefit of all parties. The Commissioner is committed to working with partners in the development of policing in Staffordshire and its services.
- Various mechanisms provide opportunities to enhance the Commissioner’s investment potential with support and contributions from other third party and local strategic partners. These may range from commissioning / facilitating others to develop services in policing in Staffordshire; funding for regeneration projects; and through match funding, joint funding of developments.

6.4.6 Revenue

- Capital expenditure may be funded directly from revenue (CERA – capital expenditure charged to revenue account). In addition to specific revenue funds previously set aside, such as repairs and renewal funds, capital expenditure may be funded by specific revenue budget provision.
- However, the general pressures on the Commissioner's revenue budget and Commissioner Tax levels limit the extent to which this may be exercised as a source of capital funding.

7. Borrowing and Leasing

7.1 Under the Prudential Code the Commissioner has discretion to undertake borrowing to fund capital projects with the full cost of that borrowing being funded from the project returns or upon agreement to include in the MTFS estimates.

7.2 This discretion is subject to complying with the Code's regulatory framework which essentially requires any such borrowing to be prudent, affordable and sustainable (Local Government Act 2003). Prudential borrowing does provide an option for funding additional capital development but one which has to be funded each year from within the revenue budget or from generating additional ongoing longer term income streams.

7.3 The Commissioner will test the prudence of the borrowing predictions against the prudential indicators set under the Code every year as part of the MTFS process and report on progress against those indicators half yearly (see Appendix 1).

7.4 Given the pressure on the Commissioner's revenue budget in future years, prudent use has been made of this discretion in cases where there was a clear financial benefit, such as "invest to save", "spend to earn" or major regeneration schemes which provide a net return over and above the borrowing cost.

7.5 The Commissioner will continue to consider on a cautious and prudent basis and is informed by a specialist team contracted from Staffordshire County Council in relation to Treasury Management who work closely with the finance team the extent to which prudential borrowing may be undertaken to fund new capital investment, which generates returns over and above the revenue costs of the debt. A full capital repayment and there is a robust business case then the option of leasing may be considered. The financing of expenditure by lease needs to take into account;

- Value of expenditure
- Residual value

- Life span of equipment matches the funding proposed
- The equipment to be replaced is part of a rolling programme that covers the whole service area or by type of equipment.

7.6 The Commissioner will utilise operational leases where possible for purchase of minor equipment, IT and vehicles supported by an appropriate robust business case.

8. Balanced Portfolio Approach

8.1 Resources will be allocated to programmes based on asset values to manage the long term yield and revenue implications. Capital receipts will be focused on those assets with short term life span e.g. vehicles and IT investments and the unsupported borrowing on long term assets e.g. land and buildings surplus receipts in any one year will be assigned to finance the programme in the most economical way to safeguard minimum impact on the revenue budget in relation to the Minimum Revenue Provision (MRP) informed by the requirements from the MTFS.

8.2 All investments will need to reflect the full development purchase costs including property taxes and fees. Business cases will also need to include all lifetime costs (both revenue and capital) and income of the proposals. Where necessary, specialist advice is to be taken around the treatment of VAT and other related taxes such as Stamp Duty Land Tax (SDLT).

8.3 The programme will include a range of grant, debt, equity and asset investment that is robustly secured, in a legally binding manner with appropriate cash flow.

8.4 The Commissioner will seek grant funded projects that include appropriate clauses for repayment if the investment over-achieves its financial outcomes, although not so as to be so restrictive as to avoid future investments by the applicant.

8.5 Debt funding can range from short term cash flow support through to longer term funding linked to infrastructure assets. Interest rates will be sought which are the best on offer through independent appraisal but reflecting appropriate legislation, for example State Aid.

8.6 Equity investment may be made supported by full third party independent appraisal of risk and return.

8.7 Investment returns again will be balanced to size and returns. Smaller debt investment returns being the short term up to medium term of up to five years. Depending on security the interest rates will be applied accordingly.

8.8 Larger investments of debt and equity ranging from five years plus may be sought taking a particular reference to asset life time costing.

9. Risk Management

9.1 Risk is the threat that an event or action will adversely affect our ability to achieve our desired outcomes or execute our strategies successfully.

9.2 Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.

9.3 The aim is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties. The corporate risk register sets out the key risks to the successful delivery of Staffordshire's corporate aims and priorities and outlines the key controls and actions to mitigate and reduce risks, or maximise opportunities.

9.4 To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored.

9.5 It is important to identify the appetite for risk by each scheme and for the capital programme as a whole, especially when investing in complex and costly business change programmes.

9.6 There will be a certain amount of risk inherent in delivering the desired outcomes of the Police and Crime Plan and we will seek to keep the risk of capital projects to a low level whilst making the most of opportunities for improvement. Where greater risks are identified as necessary to achieve desired outcomes, we will seek to mitigate or manage those risks to a tolerable level. All key risks identified as part of the capital planning process are considered for inclusion in the corporate risk register.

9.7 The Director of Finance and Chief Finance Officer will report jointly on the deliverability, affordability and risk associated with this Capital Strategy and the associated capital programme. Where appropriate they will have access to specialised advice to enable them to reach their conclusions.

9.8 Credit Risk is the risk that the organisation with which we have invested capital monies becomes insolvent and cannot complete the agreed contract. Accordingly we will ensure that robust due diligence procedures covers all external capital investment. Where possible contingency plans will be identified at the outset and enacted when appropriate.

9.9 Liquidity Risk is the risk that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. This is also the risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes. Where possible appropriate interventions will occur as early as possible.

9.10 Interest Rate Risk is the risk that interest rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Interest rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

9.11 Exchange Rate Risk is the risk that exchange rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Where relevant, exchange rates will be reviewed as part of the ongoing monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

9.12 Inflation Risk is the risk that rates of inflation will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates of inflation will be reviewed as part of the ongoing monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

9.13 Legal and Regulatory Risk is the risk that changes in laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into capital expenditure or making capital investments, we will understand the powers under which the investment is made. Forthcoming changes to relevant laws and regulations will be kept under review and factored into any capital bidding and programme monitoring processes.

9.14 Fraud, Error and Corruption is the risk that financial losses will occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the agreed Code of Corporate Governance. This is supported by the national Code of Ethics and detailed policies such as Anti-Fraud and Corruption and Declaration of Interests.

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

10. Minimum Revenue Policy

10.1 To the extent that the Commissioner needs to borrow in order to fund the capital programme this will be provided for through the revenue account in future years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008.

10.2 The Local Government Act 2003 requires the Commissioner to have regard to the Department for Housing, Communities and Local Government's Guidance on Minimum Revenue Provision, the DHCLG Guidance most recently issued in 2012. The broad aim of the Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

10.3 For capital expenditure incurred before 1st April 2008, MRP will be determined as 2% of the Capital Financing Requirement in respect of that expenditure.

10.4 For unsupported capital expenditure incurred after 31st March 2008 and before 1st April 2018, MRP will be determined by charging the expenditure over a standard 40 years.

10.5 For unsupported capital expenditure incurred after 1st April 2018, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational.

Vehicles	5 years
Equipment	10 years
ICT	10 years
Estates	40 years
Freehold Land	50 years

10.6 MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

10.7 For assets acquired by finance leases or the Private Finance Initiative and for the transferred debt from Staffordshire County Council, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

10.8 For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.

Appendix 1

Policing Treasury Management Strategy Report 2019/20
Treasury Management Indicators

Indicator	**Estimate 2019/20**	**Estimate 2020/21**	**Estimate 2021/22**
1. External debt			
a. Authorised limit	£102.5m	£97.9m	£102.3m
b. Operational boundary	£92.5m	£87.9m	£92.3m
c. External loans	£65.2m	£81.2m	£81.2m
The authorised limit is the maximum level of external borrowing which should not be exceeded. It is linked to the estimated level of borrowing assumed in the capital programme. *The operational boundary represents the Chief Finance Officer's estimate of the day to day limit for treasury management activity based on the most likely i.e. prudent but not worst case scenario.*			