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

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My Ref: **Your Ref:** **Date:** 26 January 2021

Dear Sir/Madam,

Staffordshire Police, Fire and Crime Panel - Monday 1st February 2021

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 1st February 2021 meeting of the Staffordshire Police, Fire and Crime Panel, the following reports that were unavailable when the agenda was printed.

6. **Proposed Police Budget and Precept 2021/22** **(Pages 1 - 88)**

   a) Budget Report 2021/22 including MTFS (page1-42)
   b) Treasury Management Strategy 2021/22 (page 43-64)
   c) Reserves strategy update (page 65-72)
   d) Capital Strategy and Capital Programme (page 73-88)

John Tradewell
Director of Corporate Services

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STAFFORDSHIRE COMMISSIONER
Police | Fire and Rescue | Crime

Report to the Police Fire and Crime Panel – 1st February 2021

Police and Crime Budget Report for 2021/22

(Including 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 Staffordshire Commissioner's portfolio for 2021/22. Given his intention not to stand in the 2021 election, it is the final budget report of his second and final term in office and delivers one of the his key responsibilities under the Police Reform and Social Responsibility Act 2011.

The report sets out the following:

- Net police and crime budget requirement for 2021/22
- Proposed precept for the police and crime element of the council tax 2021/22
- 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:

- Examine the information presented in this report, including:
    - The Total 2021/22 net revenue budget requirement of £222.051m **(Appendix 1)**, including
    - A council tax requirement for 2021/22 of £83.197m before collection fund deficit is taken into account **(see Appendix 5)**
- Support the proposal to increase the 2021/22 precept for the policing element of the council tax bill by 5.99% or £13.48 per annum which is equivalent to 26p per week, increasing the council tax to £238.57 for a Band D Property **(see Appendix 5).**
- Note that the Council Tax base has decreased to 348,733 properties, equivalent

to a decrease of 1.2% **(see Appendix 4)**. The Council Tax collection fund has also been finalised delivering a deficit of £0.200m after government support **(see Appendix 3).**

- Note that the Budget and MTFS fully support and include the investment required to deliver the Officer Uplift of 89 by 31 March 2022 in line with the Ring Fenced Grant of £1.483m.

- Note the use of £0.305m of revenue reserves to support the capital programme in 2021/22

- Note the MTFS summary financials **(Appendix 6)** and MTFS assumptions **(see paragraph 9.2)**

- Note an overall balanced budget position for 2021/22 is presented.

- Support the delegation to the Director of Finance for the Staffordshire Commissioners Office and the Chief Finance Officer of Staffordshire Police to make any necessary adjustments to the budget as a result of late changes to central government funding (including changes due to the final funding settlement being announced) via an appropriation to or from the general fund reserve

- Support the proposed four year Capital Investment Programme **(see section 12)** and the Capital Strategy and Capital Programme Paper

- Note the outcome of The Staffordshire Commissioner's budget consultation within the Commissioners foreword which included a survey regarding the proposed level of precept for 2021/22.

Matthew Ellis
Staffordshire Commissioner

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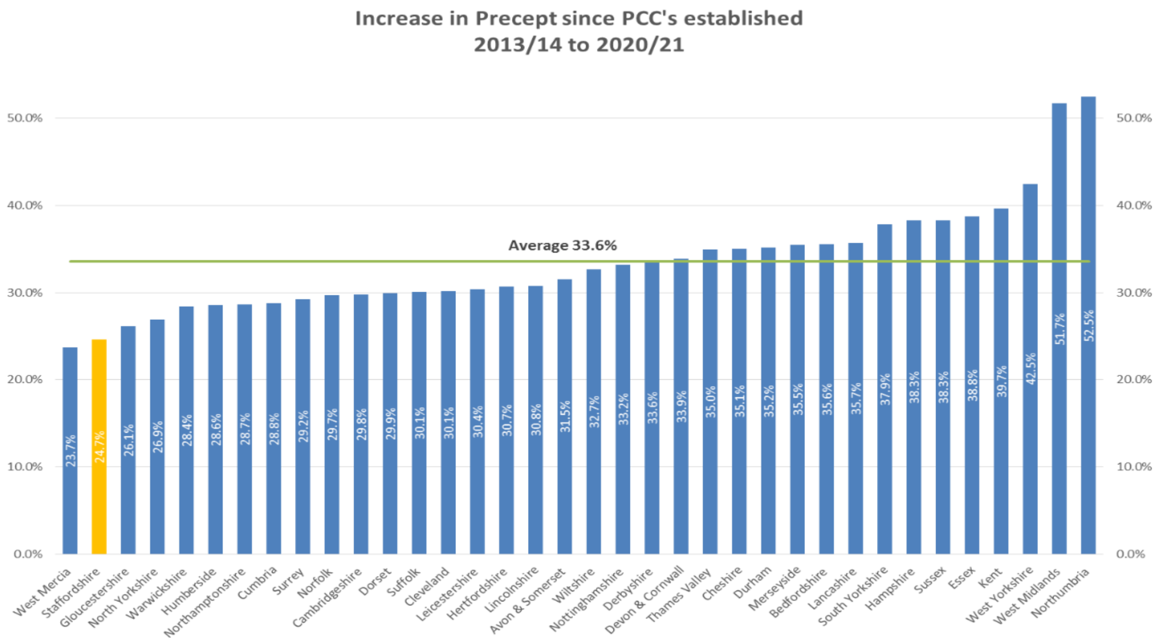
Commissioners Foreword

This is my final budget and precept proposal as the Staffordshire Commissioner. During the last year I have been consistently awed by the professionalism of our public servants in their individual and collective response to the Covid-19 pandemic. I am also keenly aware of the impact on each and every one of us and look forward to the successful roll out of Covid vaccines, allowing for a return to normality. The 2021/22 budget and Medium Term Financial Strategy (MTFS) is set against the backdrop of the Covid-19 pandemic. Prudently, I had set aside specific reserves at the end of 2019/20 to support Policing in its immediate response to Covid-19 ensuring that, financially, Staffordshire Police would not see an impact during 2020/21 on its core funding. Financially the pandemic has seen reductions in anticipated funding over the life of the MTFS, driven by reductions in the collection of council tax revenues, as well as revised assumptions around central government support for Policing.

Over both terms of office, I have been committed to only increase local taxation through the policing precept where absolutely necessary. My view had been that efficiencies should be delivered within policing and community safety before I would consider asking council taxpayers for more. This policy impact has resulted in Staffordshire taxpayers seeing the second lowest increase in council tax levels, as a percentage, since I became the Police and Crime Commissioner in April 2012 (with my first decision being for the 2013/14 financial year).



For 2021/22, an online precept consultation with residents shows that overall, around 78% of all respondents support an increased investment in policing and crime. This area has also continued to increase as an area of public concern and importance for public sector investment over the last 12 months, through various national surveys.

The resident's survey has generated 2,258 responses and shows that 22% of individuals favoured a freeze in council tax, 21% favoured a proposal of a 4.99% increase with 57% favouring the maximum increase in precept.

I have considered the response to the survey and have decided to increase the Policing Precept by 5.99%, equivalent to 26p per week, but below the maximum permissible. My proposed increase of 5.99% is less than the increases proposed by a large number of Commissioners across England and Wales.

The budget and MTFS report that you have before you reflects continued investment into Staffordshire Police to assist further modernisation of service and ensure that the public receive excellent policing support. Over recent years, Staffordshire Police have performed well and against the general trend, Staffordshire has seen crime levels drop for two years in succession. The Chief Constable has wisely invested the additional funding that I have provided, alongside the police officer uplift that Government have provided in 2020/21, to be supplemented further in 2021/22.

As I and Staffordshire Police look to the future, it is clear that new investment is required to create the operational resilience and capability over and above the increases in police officer numbers. This report describes a substantial capital programme, with more investment in IT / Digital, Fleet and Operations; capital spend has to be funded over the medium-term and therefore, choices have to be made to do this at the expense of other things. I will be prudent in my investment planning and ensure that our finances are secure over the medium-term.

In relation to the efficiency agenda, I am pleased to be able to reflect the following achievements over the current financial year:

- Her Majesty's Inspectorate of Constabulary, Fire and Rescue Services (HMICFRS) continuing to award Staffordshire Police a 'Good' rating for the use of resources in their most recent inspection.

- Within savings plan for 2020/21, 87% of projected savings have been delivered, against the back drop of a global pandemic.

- My Estates policy and planning has led to the further generation of capital receipts and reduced running costs on surplus estate.

- Further additional savings have arisen from the joint use of estate with Staffordshire Fire and Rescue Service with the creation of a joint facility in Hanley. This follows the creation of a joint facility in Tamworth last year.

- The Financial and Commercial Services team within Staffordshire Police (a shared service with Staffordshire Fire and Rescue Service) has won a prestigious national Public Finance award for Finance Team of the Year.

1. Executive Summary

1.1 This report, and the Council Tax precept proposal within it takes into account public and stakeholder consultation, demand for Policing services as well as key government announcements.

1.2 Following the announcement of the council tax referendum levels and 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 budget considers 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 current Covid-19 pandemic, whilst rightfully seen as public health emergency, is having a significant economic impact. The financial impact of the pandemic will likely set the scene for the decade to come in relation to public spending, with an impact already being seen on the financial position of Policing within Staffordshire.

1.5 The impact of the Covid-19 pandemic is evidenced in the 2020/21 budget via a reduction in the tax base (driven by an increase in the means tested benefit Local Council Tax Support schemes) and deficits on collection funds from 2020/21 which are recognised in the following year.

1.6 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.

1.7 2021/22 represents the second full year of Central Governments uplift programme which will see an additional 20,000 Police officers recruited by the end of 2022/23.

- The first year of this programme has seen Staffordshire receive an additional 90 officers – this is a net growth of 90 once accounting for retirees and leavers meaning actual recruitment has been in excess of 200 officers. The national recruitment target was 6,000 for 2020/21

- The spending review announced that the programme would now be funded to deliver 6,000 new officers in year 2 (2021/22). This is down from the 8,000 previously announced (with the 8,000 now being delivered in the final year 2022/23). The revised numbers will see Staffordshire recruit an additional 89 officers again as part of this programme in 2021/22 (and c.120 in the final year)

1.8 Whilst funding for these new officers is received via a mix of increased core grant and a ring fenced uplift grant, excluding these funding streams means that central government funding is cash flat from 2020/21 to 2021/22 (e.g. a real terms reduction). As these new uplift officers progress through their careers this brings pay pressure as well as the replacement of increasing quantities of equipment, higher IT licensing costs and other non-pay spend as a result of a higher number of officers. These elements require local funding on an ongoing basis, resulting in either further efficiencies on non-police officer spend or via increases in precept. To support Commissioners in delivering the uplift programme the government has allowed for precept increases of up to £15

1.9 After consideration of all of these aspects the Commissioner is proposing a precept increase of 26 pence per week from April 2021. The proposed precept enables the Commissioner to provide an increase in funding raised from the precept of £3.784m in 2021/22 in order to maintain and safeguard policing and community safety services across Staffordshire and Stoke on Trent, to make targeted additional investment in his Police and Crime Plan as well provide some degree of medium term financial stability in light of uncertainty around Central Government support from 2022/23.

1.10 The Commissioner and Chief Constable will make the following headline investments into Policing and Crime over the course of the MTFS, above and beyond those provided for by Central Government in:

- Increasing Digital Forensic examination capacity and capability,
- Increasing capacity within Force Intelligence,
- Increasing transformation capability
- A significant investment, via the capital programme, in Police IT,
- A modern and fit for purpose Policing Estate,
- A modern fit for purpose Police fleet

The Commissioner will determine the balance of investment funding in each of these areas, following further detail being provided by the Chief Constable. Further detail is contained in section 6.

1.11 The Commissioner will continue to support the Chief Constables transformation programme and has committed to ensuring that the scope of the capital programme and achievement of capital receipts will support this, through new IT platforms and Estate, balanced against the long term sustainability of Police and Crime funding. This paper is accompanied by a Capital Strategy and Treasury Management Strategy which explain how this investment will be targeted and afforded. Further detail on the proposed capital investment is contained in section 12.

1.12 It is recognised that there are still financial challenges faced over the coming years in order to meet the increasing demand for police services and the need for further modernisation. Whilst the Commissioner and Chief Constable understand the rationale behind a one year spending review in light of the Covid-19 pandemic, this does bring additional uncertainty to medium term financial forecasts and would welcome a multi-year settlement from government to assist with planning for critical service delivery.

1.13 The funding gaps for the years 2022/23 are below and will require an enhanced transformation plan to address these gaps, increased central government funding or precept increases in excess of the 2.99% assumed in those years:

2022/23 - £3.284m, growing to,
2023/24 - £4.650m, growing to,

2024/25 - £5.077m

1.14 If the proposals in this document are supported then the Staffordshire Commissioner (Police and Crime Commissioner for Staffordshire) will have the following funding available in 2021/22:

Table 1 Net Budget Requirement Comparison 2020/21 to 2021/22

	2020/21	2021/22	Change
Funding	**£'000**	**£'000**	**£'000**
Home Office Police Grant	115,158	122,417	7,259
Police Pension Grant	1,825	1,825	0
Uplift Ring fenced Grant	2,532	1,483	(1,049)
Revenue Support Grant	8,423	8,423	0
Council Tax Freeze Grant	3,541	3,541	0
Precept	79,413	83,197	3,784
Local Council Tax Support Grant	0	1,365	1,365
Reserves	0	0	0
Council Tax Fund Surplus/(Deficit)	1,510	(200)	(1,710)
Total Funding	**212,402**	**222,051**	**9,649**

	2020/21	2021/22	Change
Funding	**£'000**	**£'000**	**£'000**
Staffordshire Commissioner	7,938	7,945	7
Staffordshire Police	198,155	203,676	5,521
Capital Financing & Revenue Contribution to Capital*	4,590	8,718	4,128
Transformation Investment/(Requirement)	1,719	1,711	(8)
Total Spend	**212,402**	**222,051**	**9,649**

**note this figure has been updated in year to include revenue funding of the capital programme in 2021/22 – the comparable figure is £7.319m (appendix 1)*

The detailed budgets are shown in Appendix 1

2. The Budget Process

2.1 The 2021/22 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, making strategic investments where funding allows in line with the Commissioners Police and Crime Plan.

2.2 Underpinning the budget and MTFS process are the principles of setting a good and balanced budget. Whilst setting a balanced budget is a legal requirement, significant focus is spent on ensuring it is a 'good budget'

A **Balanced Budget** means that:

- Income equals expenditure
- Cost reduction targets and investment proposals are credible and achievable, and:
- Key assumptions are 'stress tested'

A **Good Budget** means that:

- It has a medium term focus, supporting the Policing Plan
- Resources are focused on our priority outcomes
- It is not driven by short term fixes
- It demonstrates how we have listened to our communities through consultation
- It is transparent and well scrutinised
- It is integrated with the capital programme; and
- It maintains financial stability

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

2.4 The Force continues to identify its Strategic Operational Risks as part of the Force Management Statement (a requirement of Her Majesty's Inspectorate of Constabulary, Fire and Rescue Service). This has been used to inform resourcing strategies at both Directorate and Departmental Level.

2.5 The latest MTFS and, in particular, the 2021/22 budget contained within this report aligns the Force and Commissioner's financial resources to areas of greatest risk and therefore is fundamental to the performance management of Staffordshire Police and the Staffordshire Commissioners Office.

2.6 Both Chief Finance Officers have worked closely with the wider finance team throughout the year during the budget monitoring process and in preparation of the revenue and capital budgets for 2021/22. 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 across both the Staffordshire Commissioners Office (SCO) and Staffordshire Police.

2.7 The Commissioner and his management team have held regular discussions with the Chief Constable and his Chief Officers throughout the year on the MTFS. For the 2021/22 MTFS both the current Covid-19 impact on forecast council tax receipts (and council tax base) coupled with having only a one year spending review has introduced a greater degree of planning risk than would be desired.

2.8 Whilst the spending review was for one year only (and confirmed a freeze in core policing grant excluding uplift numbers, resulting in a real terms cut) papers released by the Office for Budgetary Responsibility (OBR) indicate that unprotected services (e.g. Local Government, Police, Fire, Prisons & Probation) are likely to see continued real terms reductions in central funding for the government to deliver on its public finance targets for net borrowing as set out in the spending review until 2025.

2.9 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.

2.10 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. The decision around precept is taken by the Commissioner applying his judgement based upon the above budget process.

2.11 The approach taken to the MTFS is one where we continually seek to be a well-run organisation, scrutinising areas of spend as well as containing pressures. The overall approach to the MTFS process, in the order below, is:

1. Well run
    - Containment of pressures,
    - Identifying and achieving savings which involve no change to the operating model or incurring redundancy costs,
    - Spending every £ wisely
2. Commercially astute
    - Income generation
    - Asset sales
    - Balance sheet management
    - Procurement and purchasing efficiencies
3. Transformation
    - Changing the way we do things
    - Leveraging capital investment to support changes to our staffing model
    - Right sourcing of services and support
4. Service reductions & precept increases

3. Impact of Covid-19 on the MTFS

3.1 The MTFS update report presented to PFCP in October set out the initial high level impact on funding for Policing. Whilst the pandemic is rightly being treated as a health emergency there are significant economic impacts which has fed through into the MTFS.

3.2 Funding from Central Government has emerged through the 2020/21 year with the Commissioner setting aside at the end of 19/20 in an earmarked reserve to support the response to Covid-19. The following funding streams are currently available

- PPE is funded by DHSC, with medical grade PPE spend incurred before DHSC took up supplying UK Policing now refunded (refund of £185k received for Staffordshire PPE and £470k received for PPE procured on behalf of UK Policing)
- The Income Recovery Scheme - the scheme applies to sales, fees and charges where forces would usually generate income, such as policing of sporting fixtures or providing security at airports. The scheme will enable Staffordshire to recover 75p in every £1 of budgeted income lost due to Covid-19 restrictions this financial year once we have absorbed 5% of these losses.
- Funding of £452k was received at the end of October for Covid enforcement. This surge funding is in addition to the funding set aside above.
- For spend not covered by the above funding streams £478k was set aside in an earmarked reserve at the end of 2019/20, with a further appropriation of £100k made in year.

3.3 Net costs relating to Covid-19 totalled £1.352m to the end of December 2020, of which £0.285m relates to income losses. Funding totalling £1.126m has been identified to date; £0.794m has reimbursed by central government and the balance, £0.332m, has been funded from the earmarked reserve the commissioner set up at the end of 2019/20 to support the response to the pandemic.

3.4 This reserve will have a small anticipated balance to be carried over into the 2021/22 financial year. Subject to a successful inoculation programme and a removal of restrictions this amount is currently forecast to be sufficient.

3.5 Council tax receipts have been impacted on by the economic impact of Covid. The impact manifests itself through both a reduction in collection rates as well as lower growth in the council tax base in future years.

3.6 In relation to the reduction in collection rates in 2020/21 the deficit due to Covid-19 is estimated at £3.614m before any government support or deficit phasing is taken into account. The 2020/21 MTFS assumed a surplus for 2021/22 of £0.886m. This is a movement from that assumption of £4.500m before central government support is taken into account. A small number of collection funds are showing a surplus, in the main due to the recovery of historic debts.

3.7 Normally a deficit or surplus on the collection fund is applied the following year. However, as part of the Governments Covid support package the 2020/21 deficit will be repaid over three years as opposed to one. In addition to this HM Treasury have guaranteed to fund 75% of this deficit.

3.8 In relation to the council tax base this is materially lower than the estimate contained in the 2020/21 MTFS. The impact of this is £2.233m. This is driven by higher Local Council Tax Support (LCTS) claimants as the unemployment rate increases as well as a reduction in house build completions as a result of Covid restrictions. The table below reconciles the tax base assumptions used in the 2020/21 MTFS with those being used now:

	2021/22	2022/23	2023/24	2024/25
2020/21 tax base estimate	358,093	363,464	368,916	374,450
2021/22 tax base actual	348,733	350,477	353,105	356,316
Variance (band D equivalent)	**9,360**	**12,987**	**15,811**	**18,134**
Variance (£)	£2.233m	£3.191m	£3.885m	£4.726m

3.9 The total movement on council tax income before government support is £6.733m. This consists of the loss in council tax base (£2.233m), deficit on the collection fund (£3.614m) and the loss of assumed surplus on the fund in the 2020/21 MTFS (£0.886m).

3.10 A one off grant will be received in 2021/22 in relation to the impact of Local Council Tax Support (LCTS). This grant is £1.365m and is included in the funding position for 2021/22. Guidance on accounting treatment has yet to be released and as such may not be shown in the net revenue budget funding position when the detailed budget is set, however is shown as it is in the paper for transparency.

3.11 The MTFS assumes a precept increase of 2.99% in the years 2022/23 to 2024/25. Any decision on precept for those years is a decision for the new Commissioner and is subject to government referendum limits.

3.12 Central Government finances have been severely impacted by the economic contraction as well as additional support to public services. The Spending review set out spending envelopes for government departments that were lower than those proposed in the previous spending review for 2021/22. For the 2021/22 budget central government funding is £1.05m lower across core grant and uplift grant compared to what was anticipated in February 2020.

3.13 Whilst the spending review was for one year only (and confirmed a freeze in core policing grant excluding uplift numbers, resulting in a real terms cut) papers released by the Office for Budgetary Responsibility (OBR) indicate that unprotected services (e.g. Local Government, Police, Fire, Prisons & Probation) are likely to see continued real terms reductions in central funding for the government to deliver on its public finance targets for net borrowing as set out in the spending review until 2025.

4. Precept Strategy and 2021/22 Proposal

4.1 The 2021/22 proposed precept increase is 5.99%. For the period 2013/14 to 2016/17, the Commissioner maintained council tax levels at the same level as in 2012/13. His strategy was that efficiencies should be delivered within policing and community safety before increasing the amount paid by council tax payers.

4.2 Following the increase last year the Commissioners increases since 2013/14 have been the second lowest nationally, based on publicly available information.

4.3 The Council Tax Referendum Principles for 2021/22 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 £15.

4.4 The Commissioner has engaged with local residents and stakeholders on a wide range of matters. In relation to the precept, the recent consultation showed that 78% of those who responded would support an increased investment in policing.

4.5 The Commissioner has listened to this feedback and outlined his intention to increase funding in the coming year by £3.786m from the precept, which will provide some additional investment to Policing as well as ensuring that all material cost pressures across the Commissioner's Office and Staffordshire Police are met for the budget year 2021/22 as well as supporting the ongoing uplift programme. Importantly this increase provides additional protection to services into the medium term in light of the financial challenges faced by Central Government.

4.6 In addition the Covid-19 pandemic has seen a significant change in the assumptions on the council tax base as well as the Commissioners share of any surplus or deficit on collection funds. The 2020/21 MTFS assumed an ongoing increase in the council tax base of 1.5% per annum as well as surpluses on the collection fund. These assumptions have been revised in light of the pandemic but show a significant impact and loss of income compared to the 2020/21 MTFS.

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

Table 2 – Precept Increase 2021/22 to 2021/22

Council Tax (Police & Crime Element)	2020/21		2021/22	
Band D Council Tax Proposed	£	225.09	£	238.57
Increase on Prior Year	£	8.53	£	13.48
Percentage increase on Prior Year		3.94%		5.99%
Council Tax Increase	£	4,357,196	£	3,784,456
Total Precept Levied	£	79,412,756	£	83,197,213
Weekly Increase	£	0.16	£	0.26

4.8 The increase in Council Tax funding also takes into account the actual tax base reduction for 2021/22 (1.2%) for Staffordshire and Stoke on Trent when calculating the financial impact of the precept flexibility. The proposed Council Tax increase by banding is shown in **Appendix 5**

5. National Picture, Grant Settlement and Officer Uplift

5.1 On the 17th December 2020, the Government announced the provisional 2021/22 Police Finance Settlement.

5.2 In relation to the Police funding formula, there has been no change to this, nor any indication as to when the formula would be reviewed. It is currently unknown if Staffordshire would have any net gain or loss from this potential review given it has not yet started, and as such can be seen as a risk or an opportunity for future years. The MTFS assumes no impact from any potential changes to the funding formula.

5.3 In addition to the change in precept principles, the Minister confirmed an increase for the main Police Grant of £315m. Staffordshire's share is £7.259m, although the Home Office have been clear that this does not cover any inflationary uplift and is the non-ring fenced element of funding to support the increase in Police Officer numbers

5.4 In addition to the above core policing grant a ring-fenced grant for Officer Uplift has been introduced. Nationally this is £100m, of which Staffordshire share is £1.483m. The Commissioner and Chief Constable have not yet received the grant determination letter setting out the conditions of use; what is known is that this grant is dependent upon the delivery of the increase in Officer numbers (for Staffordshire this is an additional 89 Officers by the 31st March 2021).

5.5 The above grant is insufficient on its own to pay for the uplifted Officer numbers. However, the uplift in the non-ring-fenced core policing grant is anticipated to provide the additional funding required to deliver the 89 alongside local decisions on savings and precept. This is welcome given the additional flexibility of non-ring-fenced grant compared to ring-fenced grant.

5.6 The Police Pensions grant received in 2020/21 has been confirmed again for 2021/22, in line with the previous MTFS assumptions. Nationally this grant is £153m of which Staffordshire's share is £1.825m. The MTFS assumes this grant is held cash flat over the life of the MTFS, resulting in a real terms reduction in this funding stream.

5.7 The capital grant paid to Commissioners has been kept at the same level in cash terms as 2020/21 and have not been inflated in line with inflation. This is a real terms reduction in this funding stream, following the 75% reduction from 2019/20 to 2020/21

5.8 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).

5.9 Previous Council Tax freeze grants have been maintained within the funding settlement at a cash flat value and have not been inflated in line with inflation, resulting in a real terms cut.

5.10 National reallocations (top slicing) have decreased from the 2020/21 reallocations total of £1.121bn to £1.033bn. Whilst these national reallocations reduce the allocations to Police and Crime Commissioners from the overall Home Office settlement, Commissioners are supportive of these services being provided at a national level.

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

- The majority of Counter Terrorism (CT) funding is negotiated separately to the police settlement, therefore, increases do not impact on the rest of the Police settlement.

- Top ups for the NCA and ROCU are funded outside of the core policing settlement in 2021/22, hence the removal of funding above.

- The Police Technology Programme has a budget for 2021/22 of £485m, which is a £13m decrease on the 2020/21 funding.

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

- 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).

5.12 Whilst the total value of the national reallocations for 2021/22 is known, there does remain a level of uncertainty about the impact on the Police Grant of top slices over the life time of the MTFS (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.

5.13 In addition to these national top slices additional pressures have been incorporated into the budget for national recharges. These have increased year on year, and remain an area of concern for Forces nationally. Home Office IT recharges are not yet known and any variation to budget will be managed through the IT reserve.

6. Officer Uplift

6.1 The announced uplift in Police Officer numbers is welcomed by both the Commissioner and the Chief Constable. For Staffordshire this uplift in 2021/22 is 89 Officers.

6.2 The allocation methodology used by the Home Office for 2020/21 was based on the share of core policing grant. For 2021/22 the allocation methodology has stayed the same; however a 'top slice' of the national figures has been made for Counter Terrorism and for Regional Organised Crime Units (ROCU). Whilst the methodology and final numbers are unknown for year three it is likely that representations will be made be areas with higher levels of crime than Staffordshire for a redistribution and change to the methodology. Assuming the same formula allocation, and no further top slices, this would be c.120 for Staffordshire.

6.3 The following table reconciles uplift numbers:

	National	Staffordshire
Formula Allocation	6,000	90
Minus: Counter Terrorism Top slice	80	1 (notional)
Minus: ROCU	270	4
Minus: Fraud	30	0
Total uplift to individual Forces	**5,620**	**85**

N.B. ROCU Officers are employed by each local Force within the West Midlands. As such the actual growth of Officer numbers in Staffordshire is 89 (only the Counter Terrorism uplift is employed by lead forces)

6.4 This uplift is in addition to the uplift as a result of previous precept increases by the Commissioner in 2018/19 and 2019/20. These Officer numbers are in the Home Officer Baseline and will need to be sustained to access the uplift funding.

6.5 The government has been clear in the funding allocated for 2021/22 that the revenue grant contains funding for the capital investment required to enable the uplift to be successful. This funding is one off in nature and thus the replacement programme

6.6 The Force is planning, in relation to the 89 Officers, to allocate these to the following areas.

- Regional Organised Crime Unit
- Response Policing
- Disruptions Team
- Neighbourhood Policing
- Custody
- Safeguarding

The deployment of Officers is legally at the discretion of the Chief Constable and is subject to change based upon operational requirements.

6.7 The Force has, due to recruitment profiling across the three year uplift programme, committed to recruiting 120 officers in year 2 of the programme. Whilst there is the option to reduce this to the revised figure of 89 this would mean delaying recruitment of 31 officers by a matter of months (from the 2021/22 financial year to the 2022/23 financial year). It is affordable to continue to recruit in line with the original central government uplift programme (e.g. the 120) and beneficial in terms of workforce planning; however it must be noted that recruitment will not exceed the c.300 uplift numbers over the entirety of the three year programme.

7. Local Investments In Policing

7.1 The Commissioner, in reaching a decision to increase the Policing precept, has considered the need to balance increases in local taxation against the investments required in local policing to continue building back in capability and capacity, as well as enabling Staffordshire Police to respond to new and emerging threats.

7.2 These investments have been designed to balance and complement the investment in Police Officer numbers as a result if the government investment in Policing. The governments focus has been on increasing Officer numbers and the infrastructure directly related to increasing Officer numbers. The government's investment does not focus, at a local level, on increasing technological innovation, specialist Police staff roles, volunteer roles both in relation to revenue spend through pay costs or capital investment in infrastructure. These areas are becoming increasingly important to Policing in terms of meeting future demand.

7.3 The increase proposed is lower than the maximum increase allow for under legislation. The increase allows for investments that the Commissioner can make above and beyond a rise in the precept linked to inflation would allow for.

7.4 Whilst there is a strong rationale for further investment and enhanced medium term stability that an increase up to the maximum under legislation allows for, the Commissioner is minded to balance these needs against the ability of the local taxpayer to afford increases in precept. Should the Commissioner have opted for the maximum increase in precept this would have raised an additional £0.529m; increasing the band D precept by a further 3 pence per week.

7.5 The MTFS contains the following potential investments across the revenue and capital programme. The substantial capital programme that this report describes in section 12 will require a significant increased commitment from the revenue budget over the medium-term and the Commissioner will ensure that a prudent approach is taken to prioritise this. All investment decisions for 2021/22 will be subject to further detailed review by the Commissioner before the start of the financial year:

- **Technology & Digital Capability** – the investment in technology and digital capability covers investment in both infrastructure, software and devices. This builds on the commissioners desire for Staffordshire Police being the most technologically enabled Force and build on the benefits of bringing Technology Services in house during 2020/21 The outcomes expected are:
    - A more stable network, including for remote working
    - Continual upgrading in devices including mobile technology
    - Upgrading software
    - National Technology Programmes
    - The Emergency Services Network

- **Modern and fit for purpose Estate** – The Commissioner is committed to investing in Estate to ensure the Force has access to modern, fit for purpose Estate that meets the needs of a 21st Century Police Force. Whilst a significant element of this commitment will be delivered via sharing estate with Staffordshire Fire and Rescue Service the Commissioner is committed to also invest in the estate that will be retained The outcomes expected are:

    - Modern fit for purpose neighbourhood and response bases,
    - A programme of investment in communal areas and energy efficient heating
    - An operations hub to meet the evolving needs of the Force, in light of the changing nature of policing
    - The creation of shared modern estates with Staffordshire Fire and Rescue Service to generate significant revenue savings.

- **Modern and fit for purpose fleet** – the Commissioner is committed to ensuring the fleet requirements of Staffordshire Police are met through a rolling replacement programme. The outcomes expected are:

    - A modern fit for purpose fleet. The average age of vehicles being replaced are 7 years old
    - New vehicles reduce revenue running costs and time spent off the road
    - Newer vehicles typically have lower emissions. The Force is currently in the process of adding a number of electric vehicles to its fleet

- **Digital Forensics** – since 2010 digital forensic submissions have increased by over 500%, driven by both increases in device numbers and complexity of devices being analysed. The outcomes expected are:

    - Reduced outsourcing of devices
    - Increasing throughput and speeding up analysis
    - Reduced backlogs in devices
    - Upgrades in analytical equipment

- **Change and Transformation** – over the coming years there will need to be further investment in change capacity to both address future funding gaps as well as deliver on the ambitious change programme. The expected areas for investment are:

    - Increased pace in delivery of change programmes
    - Reductions in future financial gaps
    - Reductions in agency and interim spend on change and transformation capacity

7.6 The Commissioner will continue to hold Staffordshire Police to account for the impact on outcomes of these investments. The Commissioner will have particular interest in how the local investment into Policing complements and enhances the national investment in Police Officer numbers.

8. The Medium Term Financial Strategy

The Medium Term Financial Strategy has been updated as follows and is shown in detail in Appendix 6:

8.1 The MTFS is an important document in the overall financial framework of the Commissioner's and Staffordshire Police's planning. It builds on the budget for 2020/21 and incorporates plans to meet changes in available financing with the need to meet current and future commitments.

8.2 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 2021 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.

8.3 The MTFS update presented to the Police and Crime Panel in October 2020 identified a funding gap over the MTFS period. Those gaps were:

- £5.551m in 2021/22, growing to;
- £7.722m in 2022/23, growing to;
- £10.138m in 2023/24,

8.4 The above gaps were predicated on an annual pay award of 2.5%, a cash flat core policing grant, a 2.99% annual precept increase and an assumption that the Officer Uplift would be fully funded. They also took account of the impact, based on information from billing authorities during October 2020, on council tax base and collection rates.

8.5 The latest MTFS position for the period to 2021/22 indicates that this funding gap has been resolved for the coming budget year. The main drivers of this improvement is the combination of the chancellors pay freeze, the increased precept opportunity, new savings identified and treasury management savings. There are small future funding gaps; however given the current spending review is for one year only this gap is predicted on cost and income inflation assumptions that will be reviewed once the 2022 Spending Review has concluded. The assumptions used are in line with those used by other Commissioners and Forces.

	2021/22	2022/23	2023/24	2024/25
Previously reported position (October 2020 PFCP)	£5.551m Gap	£7.722m Gap	£10.138m Gap	N/A
Transformation Requirement	-	£3.284m Gap	£4.650m Gap	£5.077m Gap

8.6 The MTFS is based on full delivery of a number of savings relating to the Force Efficiency and Change Programme, as included in **appendix 7**. 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.

8.7 As part of the 2021/22 MTFS review savings in the current MTFS have been reviewed. This has resulted in certain savings being re-profiled or removed from the 2021/22 MTFS. The revised savings programme are set out in **appendix 7**

8.8 New savings proposals from Staffordshire Police totalling £1.894m have been included and are in addition to the savings already assumed in the MTFS. These include savings that arise from the Commissioner's strategic plans e.g. Estates, have been presented to the Commissioner and have been 'stress tested' for deliverability. These savings exceed the expectation of Police efficiencies set out in the Spending Review. For Staffordshire the Spending Review assumed efficiencies of £1.8m, with savings identified of £2.011m. The revised savings programme are set out in **appendix 7**

8.9 Additional savings from Treasury management, compared to the October PFCP paper, are now included. This saving has been delivered by improved cash balances and cash management (leading to lower external borrowing and interest costs), additional capital receipts from the disposal of surplus assets and slippage within the capital programme.

8.10 The base budget allows for the impact of the decision to terminate the IT contract with Boeing Defence UK. This is covered under decision note number 6 on the agenda for the Police Fire & Crime Panel meeting on the 10th February 2020.

8.11 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 life of the MTFS, with additional funding for uplift officers only. This represents a real terms reduction in central government funding of c.8% by 2024/25

- That the council tax base grows at 0.5% per annum in 2022/23, 0.75% in 2023/24 and 0.91% in 2024/25. Previously this had been set at 1.5%. Growth in the base recovers over the period based upon an assessment of the economic recovery from the pandemic.

- A pay 'pause' was announced in the spending review, freezing pay for all earning over £24,000 per annum and a flat rate £250 increase for those earning under £24,000. It is assumed this pay 'pause' will be a permanent feature of the budget (e.g. is a pay freeze as opposed to being deferred and 'caught up' via an above inflation increase in future years).

- Pay Increases are assumed at 2% for the life of the MTFS from 2022/23 onwards in line with the Bank of England target inflation rate. This means no net increase, in real terms, in pay levels.

- Non staff inflation is based upon known contract or specific inflation where known (e.g. business rates). Where inflation is unknown the rate of inflation included is 1.5%. This is 0.5% lower than the Bank of England target inflation rate of 2%, and builds in an assumed efficiency saving.

8.12 It is expected that there will be more clarity provided by the Home Office for the years after 2021/22 in terms of funding arrangements one a multiyear spending review has been concluded in the autumn of 2021.

9. Assumptions

9.1 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.

9.2 The MTFS presented has been constructed using the following assumptions:

Table 4: Assumptions

Description	2021/22 Budget	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Police Officers				
Pay Award	0.0%	2.0%	2.0%	2.0%
Incremental uplift	1.0%	1.0%	1.0%	1.0%
Pension Contribution	31.0%	31.0%	31.0%	31.0%
Police Staff				
Pay Award	0.0%	2.0%	2.0%	2.0%
Incremental uplift	1.0%	1.0%	1.0%	1.0%
Pension Contribution	15.5%	15.5%	15.5%	15.5%
Non Staff Inflation				
General (Including Rates)	1.5%	1.5%	1.5%	1.5%
Utilities - Gas/Electric	1.5%	1.5%	1.5%	1.5%
Fuel	1.5%	1.5%	1.5%	1.5%
Estates Contract	1.5%	1.5%	1.5%	1.5%
Insurances	1.5%	1.5%	1.5%	1.5%
Funding				
Government Funding	0.0%	0.0%	0.0%	0.0%
Council Tax Base Increase	0.50%	0.50%	0.75%	0.91%
Variable Income Charges	2.0%	2.0%	2.0%	2.0%
Council Tax Precept Increase	5.99%	2.99%	2.99%	2.99%
Collection Fund Deficit £000	(200)	(301)	(301)	0

9.3 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.

9.4 Assumptions on inflation have been cross-referenced with other Policing and local public sector organisations and believe they are consistent.

9.5 The tax base forecasts are based upon a slow recovery from the current reduction in the council tax base. Current economic conditions in relation to both the current and future level of housebuilding as well as the number of claimants of Local Council Tax Support will make a significant impact in terms of the total council tax collected and future income projections.

9.6 Police Officer pension costs remain a significant risk over the medium term, in particular in light of the McCloud judgement on pension’s age discrimination. To offset this risk the Commissioner has established a pensions reserve, however the impact of this could amount to a significant multi million pound annual cost.

10. Risks and Sensitivity Analysis

10.1 In reflecting on where and whether investments are appropriate in 2021/22 the Commissioner will also reflect on the development of risks within the environment and respond to the monitoring of those risks.

10.2 Whilst the uplift in funding for Policing is welcome the Commissioner is cognisant of the ongoing pressures on other local partners and national agencies. These pressures will have an impact on the performance of local policing and crime services.

Table 5: Sensitivity Analysis on Assumptions

Cost Area	Change	£'000
Police Pay	1%	1,048
PCSO/Police Staff	1%	619
Utilities	1%	43
Vehicle costs	1%	34
Supplies & Services	1%	99
Police Pension Contribution	1%	1,048
Police Core Grant Funding	1%	1,224
Precept	£1	349
Council Tax base	1%	832

11. Reserves Position

11.1 The previous MTFS for both 2019/20 and 2020/21 included proposals to replace and strengthen the reserves position alongside investing in service delivery. This work has been fully completed now

11.2 The Commissioner has always believed in holding ‘minimal safe reserves’ as defined by the Commissioners understanding of the risk profile facing Policing. The Commissioners reserve strategy sets this out to be 3% of the net revenue budget, with the general fund reserve currently at 3%

11.3 A number of earmarked reserves are included within the overall reserves position. A number of these reserves exist to cover increased risks in the external environment such as pensions and Covid-19.

11.4 Overall one revenue reserve is being drawn on in setting the 2021/22 budget. This is for £0.305m to support the vehicle replacement programme. The capital receipts reserve is being utilised to support the capital programme in addition to the above revenue reserve use.

11.5 If the proposals in this report are adopted then the reserves position will be as shown in **Appendix 2.** These reserves are from the audited accounts reserves for the year ending 2019/20.

12. Capital Programme 2020/21 to 2024/25

12.1 The Capital Programme is set out at 12.11 (Table 6 below). 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 2021. 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 Over recent years the Force has seen significant investment through the capital programme into Digital Technology. The capital programme for 2021/22 to 2024/25 will continue to focus investment on the shared priority of Digital Technology, with an increased focus on maximising the opportunities for sharing estate both with Staffordshire Fire and Rescue service as well as other public sector partners to drive value for the taxpayer and allow for the prioritisation of investment in Digital Technology.

12.4 The capital programme will see debt as a percentage of the net revenue budget increase throughout the period of the MTFS. On this metric the affordability of the capital programme will continue to consume a greater percentage of revenue spend over the MTFS period. The Commissioner is committed to maintaining revenue contributions to the capital programme, in particular for purchasing short life assets. This strikes a fair balance between the need for investment and the burden left to future taxpayers to service these investments.

12.5 The Commissioner has been able to increase the capital programme investment compared to the programme previously proposed due to a number of factors. These include; increased capital receipts, direct revenue financing of the capital programme, a stronger internal cash position as well as improving confidence in the Force's ability and approach to managing capita spend and planning. The following investments are proposed as part of the 4 year capital programme.

12.6 As part of his 2020/21 budget proposals the commissioner set a revenue contribution to capital spend of £2.073m. This continues throughout the MTFS period and supports both capital investment, but crucially lowers the capital financing requirement (accumulated debt) compared to not including this. By contributing revenue to capital the commissioner is supporting longer term financial sustainability thus allowing for more funding for service provision over the medium term as opposed to funding being required for debt repayment.

12.7 Digital Technology investment is proposed to maintain the significant improvements in capability seen due to previous investments, to improve core infrastructure, build on the benefits witnessed from insourcing Technology Services and for improvements in digital capabilities to be leveraged. The main proposed investments in the four year programme are:

- £0.550m on network infrastructure to improve network resilience and support increased off site working.
- £2.350m for enhancements to operational software and capabilities over the life of the MTFS
- £4.468m for device refresh including mobile technology over the life of the MTFS
- £10.1m for the assumed local costs of the Emergency Services Network within the capital programme. Whilst work is ongoing to ensure the costs passed to Forces and Commissioners is minimised this is included as a planning assumption based on the Home Office ESN funding model. Within the revenue budget £0.240m has been allocated for ESN costs that cannot be capitalised under statute.
- £2.750m for national IT & Digital programmes. Whilst the projects are currently known, the funding costs and split are not, therefore this is included as a funding placeholder

12.8 The vehicle replacement programme does not see an increase in the number of vehicles the Force operates outside of the uplift programme. An investment of £1.905m will allow for the replacement of c.80 vehicles, with the vehicles proposed for replacement being on average 7 years old.

12.9 Additional capital spend in year to support the uplift programme will be required and will be added to the capital programme for the costs of the uplift in Officer numbers. This is to be funded via revenue contributions from the ring-fenced uplift grant and is not yet shown in the capital programme.

12.10 The estates programme focusses on the costs of maintaining the current estate. Whilst a joint Estates strategy is being developed by the Commissioner with Staffordshire Police and Staffordshire Fire and Rescue Service, it is envisaged that this strategy will see a number of projects within this maintenance programme not being undertaken due to Staffordshire Police taking advantage of the modern PFI facilities offered by the Fire service under this joint estates strategy. However, for prudence whilst the strategy is being developed provision has been made for these projects.

12.11 Alongside the ability to work and operate from modern facilities contained within the estate operated by the Fire Service is the ability to generate capital receipts and ongoing revenue savings from the disposal of surplus estate. These receipts have been reinvested back into the capital programme and the revenue savings are used to support the revenue budget. The main proposed investments in the four year programme are:

- A rolling refurbishment programme on the current Police Estate including provision for the refurbishment of Burslem, Longton, Leek, Stafford and Cannock Police Stations

- A provision on £19m for a new operations hub / fire arms training range, scheduled for 2022/23. The Commissioner has approved an outline business case, with a full business case being developed to be considered by the Commissioner elected in May 2021 and is included for planning purposes only.

- A programme of mechanical, electrical, fire and security upgrades. This will also include investment in modern energy efficient and environmentally friendly heating.

12.12 The table below details the Capital Programme Projects and spend over the MTFS period with the expected funding of the programme.

Table 6: Capital Programme Spending

Business Area	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
IT	8,068	4,450	7,640	2,040
Estates and Facilities	3,009	11,609	9,794	600
Transport	1,905	1,905	1,905	1,905
Operational Equipment	150	150	150	150
OPCC	0	0	0	0
Capital Programme	**13,132**	**18,114**	**19,489**	**4,695**

Funded by:				
Capital Receipts	(1,775)	(1,450)	(350)	0
Deferred Capital Receipt	(99)	(59)	(20)	0
Capital Grants	(174)	(174)	(174)	(174)
Capital Specific Grants	0	0	(331)	0
Revenue Contribution to Capital	(2,073)	(2,073)	(2,073)	(2,073)
Earmarked Reserves	(355)	(355)	(1,004)	(221)
Borrowing Requirement	(8,656)	(14,003)	(15,537)	(2,227)
Total Funding	**(13,132)**	**(18,114)**	**(19,489)**	**(4,695)**

12.12 The impact of capital investment at a level detailed in the table above on the revenue budget is significant, creating additional financial pressures into the medium-term, because of financing costs, or because revenue funding is used directly to meet capital costs. The Chief Constable's plans in this area, will continue to be scrutinised and subject to the approval of the Commissioner.

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.

13.2 It is noted that the budget years 2022/23 onwards are planned within a more uncertain environment than has been the case in recent years, in relation to the impact of Covid-19 on both Central government finances as well as locally raised taxation.

I conclude, therefore, that the budget for 2021/22:

- Has been prepared on a robust basis,
- Is accompanied by a Capital, Treasury Management and Reserves Strategy
- Includes the funding for the required uplift in Officer numbers

David Greensmith
Director of Finance / S151 Officer for the Staffordshire Commissioner's Office

Appendix 1

Revenue Budget 2021/22

	Budget 2020/21 £'000	Budget Proposal 2021/22 £'000	Year on Year Change £'000
Pay			
Police Officer Pay Costs	97,142	104,792	7,650
Pcso Pay Costs	8,452	8,324	(128)
Police Staff Pay Costs	53,719	53,560	(159)
Other Employee Costs	7,092	5,717	(1,375)
Police Officer Pensions	4,536	5,583	1,047
Total Pay	**170,941**	**177,975**	**7,034**
Non Pay			
Repairs & Maintenance	50	30	(20)
Other Premises Costs	4,293	4,284	(9)
Vehicle Costs	3,866	3,365	(502)
Other Travel Costs	489	489	0
Operational Supplies & Service	6,798	7,111	313
Communications & Computers	6,561	8,210	1,649
Administration	1,984	1,957	(27)
Other Supplies & Services	875	870	(5)
Total Non Pay	**24,917**	**26,317**	**1,400**
Contracted			
Third Party Payments	23,679	24,344	665
Total Contracted	**23,679**	**24,344**	**665**
Capital Financing Cost			
Capital Financing Costs	5,246	6,645	1,399
Revenue Contribution to Capital	2,073	2,073	0
Total Capital Financing Cost	**7,319**	**8,718**	**1,399**
Reserve Transfers			
Reserve Transfers	2,831	0	(2,831)
Total Reserve Transfers	**2,831**	**0**	**(2,831)**
Income			
Grants & Contributions	(10,386)	(10,302)	84
Reimbursements	(4,982)	(5,073)	(91)
Sales, Fees & Charges	(1,076)	(982)	94
Other Income	(240)	(70)	170
Total Other Income	**(16,684)**	**(16,427)**	**257**
Unallocated Savings			
Unallocated Savings	(601)	(588)	14
Total Unallocated Savings	**(601)**	**(588)**	**14**
Transformation Support	**0**	**1,711**	**1,711**
Total Revenue Budget	**212,402**	**222,051**	**9,648**

Financed By:			
Home Office Funding	131,479	137,689	6,210
LCTS Grant		1,365	1,365
Council Tax Funding	80,923	82,997	2,074
Total Financing	**212,402**	**222,051**	**9,648**

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Appendix 2

Useable Reserves Statement

Actual 31-Mar-20 £'000		Transfer Out £'000	Transfer In £'000	Forecast 31-Mar-21 £'000
6,350	**General Fund**	**0**	**23**	**6,373**
	Earmarked Reserves			
3,216	Transformation Reserve	0	0	3,216
1,903	Capital Reserve	0	32	1,935
348	Insurance Reserve	(94)	733	987
1,164	Pensions Reserve	0	1,047	2,211
250	Collaboration Reserve	(193)	0	57
0	Uplift Reserve	0	2,644	2,644
3,264	Operation Reserves	(1,107)	691	2,848
10,145	**Total Earmarked Reserves**	**(1,394)**	**5,147**	**13,898**
3,150	**Capital Receipt Reserve**	(3,448)	2,074	1,775
331	**Unapplied Grants**	0	0	331
19,975	**Total Reserves**	**(4,842)**	**7,244**	**22,377**

Useable Reserves Forecast

	2020/21 Budget £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
General Fund	**6,373**	**6,373**	**6,373**	**6,373**	**6,373**
Earmarked Reserves					
Transformation Reserve	3,216	3,216	3,216	3,216	3,216
Capital Reserve	1,935	1,580	1,225	221	0
Insurance Reserve	987	987	987	987	987
Pensions Reserve	2,211	2,211	2,211	2,211	2,211
Collaboration Reserve	57	57	57	57	57
Uplift Reserve	2,644	2,644	2,644	2,644	2,644
Operation Reserves	2,848	2,933	3,018	3,103	3,188
Total Earmarked Reserves	13,898	13,628	13,358	12,439	12,303
Capital Receipt Reserve	1,775	0	0	0	0
Unapplied Grants	331	331	331	0	0
Total Reserves	**22,377**	**20,332**	**20,062**	**18,812**	**18,676**

Appendix 3

Council Tax Report 2021/22

Council Tax Surplus / (Deficit) by Billing Authority

	2020/21 £000's	2021/22 £000's*	Change £000's
Cannock Chase	135	(34)	(169)
East Staffordshire	87	36	(50)
Lichfield	187	(37)	(224)
Newcastle	(66)	(54)	12
South Staffordshire	214	(44)	(259)
Stafford	288	(53)	(341)
Staffordshire Moorlands	37	(79)	(116)
Tamworth	95	75	(20)
Stoke City Council	534	(11)	(545)
Total	**1,511**	**(200)**	**(1,711)**

*Note these figures are after the application of the 75% Treasury contribution towards Covid-19 deficits and after the 3 year spreading of the locally funded 25% deficit. Conformation of how the support grant is to be paid and its exact amount are awaited from HM Treasury, thus potentially may change these figures.

Appendix 4

Council Tax Report 2021/22

Council Tax base by Billing Authority

	2020/21 (Band D Equivalent)	2021/22 (Band D Equivalent)	Change (Band D Equivalent)
Cannock Chase	29,243	29,137	(106)
East Staffordshire	38,389	37,875	(514)
Lichfield	39,032	38,891	(141)
Newcastle	37,387	37,087	(300)
South Staffordshire	38,356	38,664	308
Stafford	48,261	47,994	(267)
Staffordshire Moorlands	33,225	33,260	35
Tamworth	22,367	22,366	(1)
Stoke City Council	66,542	63,459	(3,083)
Total	**352,801**	**348,733**	**(4,068)**

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Appendix 5

Council Tax Report 2021/22

Council Bands for Each Band and Billing Authority Precepts

Based upon a Band D Increase of 5.99%

Band	2020/21 £	2021/22 £	Annual Increase £	Increase per week £
A	150.06	159.05	8.99	0.17
B	175.07	185.55	10.48	0.20
C	200.08	212.06	11.98	0.23
D	225.09	238.57	13.48	0.26
E	275.11	291.59	16.48	0.32
F	325.13	344.60	19.47	0.37
G	375.15	397.62	22.47	0.43
H	450.18	477.14	26.96	0.52

	2020/21 £	2021/22 £	Change £
Cannock Chase	6,582,266	6,951,171	368,905
East Staffordshire	8,640,962	9,035,839	394,877
Lichfield	8,785,877	9,278,226	492,349
Newcastle	8,415,532	8,847,846	432,314
South Staffordshire	8,633,624	9,224,142	590,518
Stafford	10,863,120	11,449,952	586,833
Staffordshire Moorlands	7,478,697	7,934,838	456,141
Tamworth	5,034,643	5,335,857	301,213
Stoke City Council	14,978,035	15,139,342	161,307
Total	**79,412,756**	**83,197,213**	**3,784,456**

STAFFORDSHIRE COMMISSIONER
Police | Fire and Rescue | Crime

Appendix 6

MTFS Summary Financials to 2024/25

	Budget 2021/22 £'000	Budget 2022/23 £'000	Budget 2023/24 £'000	Budget 2024/25 £'000
Pay				
Police Officer Pay Costs	104,792	110,623	114,105	117,208
PCSO Pay Costs	8,324	8,324	8,324	8,324
Police Staff Pay Costs	53,560	53,617	53,677	53,677
Other Employee Costs	5,717	5,805	5,824	5,824
Police Officer Pensions	5,583	5,583	5,583	5,583
Total Pay	**177,975**	**183,951**	**187,512**	**190,615**
Non Pay				
Repairs & Maintenance	30	30	30	30
Other Premises Costs	4,284	4,284	4,284	4,284
Vehicle Costs	3,365	3,365	3,365	3,365
Other Travel Costs	489	489	489	489
Operational Supplies & Service	7,111	7,111	7,111	7,111
Communications & Computers	8,210	8,993	10,119	10,712
Administration	1,957	1,957	1,957	1,957
Other Supplies & Services	870	870	870	870
Total Non Pay	**26,317**	**27,099**	**28,226**	**28,819**
Contracted				
Third Party Payments	24,344	24,344	24,344	24,344
Total Contracted	**24,344**	**24,344**	**24,344**	**24,344**
Capital Financing Cost				
Capital Financing Costs	6,645	6,914	6,878	7,419
Revenue Contribution to Capital	2,073	2,073	2,073	2,073
Total Capital Financing Cost	**8,718**	**8,987**	**8,951**	**9,492**
Reserve Transfers				
Reserve Transfers	0	0	0	0
Total Reserve Transfers	**0**	**0**	**0**	**0**
Income				
Grants & Contributions	(10,302)	(10,302)	(10,302)	(10,302)
Reimbursements	(5,073)	(5,073)	(5,073)	(5,073)
Sales, Fees & Charges	(982)	(982)	(982)	(982)
Other Income	(70)	(70)	(70)	(70)
Total Other Income	**(16,427)**	**(16,427)**	**(16,427)**	**(16,427)**
Unallocated Savings				
Unallocated Savings	(588)	(653)	(699)	(699)
Total Unallocated Savings	**(588)**	**(653)**	**(699)**	**(699)**
Transformation Support/(Requirement)	1,711	(3,284)	(4,650)	(5,077)
Total Revenue Budget	**222,051**	**224,018**	**227,258**	**231,067**

Financed By:				
Settlement Funding				
Home Office Police Grant (inc. Uplift Ringfenced Grant)	123,900	124,417	124,417	124,417
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
Total Settlement Funding	**137,689**	**138,206**	**138,206**	**138,206**
LCTS Grant	1,365	0	0	0
Council Tax	82,997	85,812	89,052	92,862
Total Financing	**222,051**	**224,018**	**227,258**	**231,067**

Appendix 7 – Saving & Efficiencies

Savings Theme - Estates	Description	Directorate	2021/22	2022/23	2023/24	2024/25
Estates	**Project Spend** - Savings achievable due to the Joint Estates Strategy reducing the size of the Police only Estate	People and Resources	(20)	(20)	(20)	(20)
Estates	**Office Furniture & Equipment -** extension of the useful economic life of furniture under the annual replacement programme, coupled with greater agile working reducing wear and tear	People and Resources	(10)	(10)	(10)	(10)
Estates	**Variable maintenance spend** - As the size of the Police owned estate reduces efficiencies will be generated within repairs and maintenance	People and Resources	(20)	(20)	(20)	(20)
Estates	**Estates Rationalisation Strategy -** Revenue running cost savings generated from the disposal of Estate assets currently held for sale	People and Resources	(241)	(306)	(306)	(306)
Estates	**Accommodation costs** - Recharging of Estates costs to external grant funding in line with grant agreements	Neighbourhood and Partnership	(13)	(13)	(13)	(13)
Estates	**Estates Lease Review -** The Force has reduced its requirement to lease space from third parties. As a result there is a reduction in the lease payments due	People and Resources	(45)	(45)	(45)	(45)
Total Estates Savings			**(349)**	**(414)**	**(414)**	**(414)**

Savings Theme - Efficiency & Procurement	Description	Directorate	2021/22	2022/23	2023/24	2024/25
General Efficiency & Procurement	**Forensics Vehicle Recovery -** General efficiency within this area of spend	Operational Support	(25)	(25)	(25)	(25)
General Efficiency & Procurement	**External Training for CDOs** - Training will now be undertaken in house	Operational Support	(48)	(48)	(48)	(48)
General Efficiency & Procurement	**ANPR Equipment Maintenance** - Due to the upgrade in ANPR funded by the Commissioner in the 20/21 MTFS savings have been identified within the maintenance budget as new equipment is more resilient	Operational Support	(31)	(31)	(31)	(31)
General Efficiency & Procurement	**General Vehicle Hire** - General efficiencies made in the usage and retendering of vehicle hire contracts	Operational Support	(23)	(23)	(23)	(23)
General Efficiency & Procurement	**Subscriptions & Levies - A** review of subscriptions and levies has been undertaken resulting in a small saving	Operational Support	(2)	(2)	(2)	(2)

General Efficiency & Procurement	**Equipment -** Removal of a historic budget line with equipment funded via grant or capital programmes	Investigations	(50)	(50)	(50)	(50)
General Efficiency & Procurement	**Prosecution Costs -** General Efficiency and budget reduction due to historical underspend	Investigations	(51)	(51)	(51)	(51)
General Efficiency & Procurement	[redacted] - reduction in historical budget line	Investigations	(50)	(50)	(50)	(50)
General Efficiency & Procurement	**Advertising Vacancies -** Efficiency generated through reducing spend on third parties to advertise Police Staff posts	People and Resources	(5)	(5)	(5)	(5)
General Efficiency & Procurement	**Assessment Centres -** Reduction in assessment centre spend	People and Resources	(73)	(73)	(73)	(73)
General Efficiency & Procurement	**Workstation equipment -** General efficiency achieved on specialist workstation equipment	People and Resources	(3)	(3)	(3)	(3)
General Efficiency & Procurement	**Office Supplies -** A reduction on the use of stationary and other associated office supplies	People and Resources	(15)	(15)	(15)	(15)
General Efficiency & Procurement	**Cash Collection -** General efficiency in Force cash collection costs	People and Resources	(1)	(1)	(1)	(1)
General Efficiency & Procurement	**Vending Machine Consumables -** A change in catering contract has removed a number of 24/7 vending machines from the Force estate.	People and Resources	(4)	(4)	(4)	(4)
General Efficiency & Procurement	**Bank & BACS charges -** General efficiency within Finance and Commercial services on banking charges	People and Resources	(1)	(1)	(1)	(1)
General Efficiency & Procurement	[redacted] **Payroll Services -** A general efficiency within historic costs held within Finance relating to historical Police Staff pension costs	People and Resources	(5)	(5)	(5)	(5)
General Efficiency & Procurement	**Postage -** General efficiency achieved via reducing the use of external postage, in part due to the increase in the use of electronic communications	People and Resources	(10)	(10)	(10)	(10)
General Efficiency & Procurement	**Contributions to partnerships -** General budgetary efficiency following a review of contributions to external partnerships where alternative funding arrangements exist or non-cash contributions are made	Neighbourhood and Partnership	(10)	(10)	(10)	(10)
General Efficiency & Procurement	**Laundry Contract Efficiencies -** A procurement efficiency on retendering the contract for laundry services for detained individuals	Operational Support	(21)	(21)	(21)	(21)
General Efficiency & Procurement	**Uniform costs -** Savings made as part of the replacement cycle for uniform for Custody Detention Officers.	Operational Support	(4)	(4)	(4)	(4)
Total General Efficiency & Procurement			**(431)**	**(431)**	**(431)**	**(431)**

Savings Theme - income Generation	Description	Directorate	2021/22	2022/23	2023/24	2024/25
Income Generation	**Secondments -** Income generation as a result of secondments to national policing bodies and central government, bringing this budget line in with the levels of income achieved over the last two years	Investigations	(200)	(200)	(200)	(200)
Income Generation	**Enabling Services** - Charges made to third parties for the delivery of Enabling Support Services	People and Resources	(58)	(58)	(58)	(58)
Income Generation	**National Fees and Charges Inflation** - On nationally mandated fees and charges inflationary increases are applied each year in line with Home Office and NPCC recommendations.	People and Resources	(72)	(144)	(144)	(144)
Total Income Generation			**(330)**	**(402)**	**(402)**	**(402)**

Savings Theme - Staffing	Description	Directorate	2021/22	2022/23	2023/24	2024/25
Staffing	**Custody Detention -** As a result of the Commissioners decision to in source Custody Detention Officers in 2018 efficiencies have been generated via the staffing model. This adjustment reflects changes made to that staffing model as a result of a review by the directorate	Operational Support	(63)	(63)	(63)	(63)
Staffing	**Shared Services; Finance & Commercial** - A small restructure has been undertaken within Commercial Services resulting in a reduction in staffing spend. As this is a shared service with Staffordshire Fire & Rescue savings a portion of savings will also accrue to SFRS. Since the baseline was set in the commissioners business case on collaboration this service has exceeded the savings in the business case	People and Resources	(15)	(15)	(15)	(15)
Staffing	**Redeployment Expenses -** A reduction in the number of Staff and Officers claiming redeployment expenses	People and Resources	(15)	(15)	(15)	(15)
Staffing	**Contact Services Management Redesign** - As part of the ongoing efficiency drive within the directorate senior management has been reviewed within the contact centre [redacted]	Contact and Response	(63)	(63)	(63)	(63)
Staffing	**Overtime** - A reduction in variable overtime spend on the central budget held by the Deputy Chief Constable	DCC Directorate	(50)	(50)	(50)	(50)
Total Staffing Savings			**(206)**	**(206)**	**(206)**	**(206)**

Savings Theme - Transformation	Description	Directorate	2021/22	2022/23	2023/24	2024/25
Transformation	**Redundancy costs** - Under current practice redundancy costs are paid for centrally and not by directorates. Under this policy redundancy costs will be paid for by directorates from the efficiency generated by restructures, with the ability for directorates to spread the cost over a number of years through using the redundancy reserve	People and Resources	(500)	(500)	(500)	(500)
Transformation	**Training and Development** - The Force has expanded its relationship for training with Staffordshire university, including the innovative Detective Constable entry programme 'DC DHEP'. This change has resulted in a cessation of the Police Now programme resulting in a net saving	People and Resources	(195)	(195)	(195)	(195)
Total Transformation			**(695)**	**(695)**	**(695)**	**(695)**

TOTAL STAFFORDSHIRE POLICE SAVINGS			**(2,011)**	**(2,148)**	**(2,148)**	**(2,148)**

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Appendix 8 – Capital Programme

Estates Capital Programme

Investment Area	Business Benefit and Narrative	2021/22	2022/23	2023/24	2024/25
Major Projects		£000's	£000's	£000's	£000's
Baden Hall*	Bullet Catcher/Canopy - Contingency project to ensure compliance of Range with College of Policing Standards.	250			
Burslem PS	Major overhaul and refurbishment of site, works are in addition to BAU upgrades and assumes that no viable co-location opportunities exist under the joint estate	350			
Cannock PS	Phase Two refurbishment to areas of the site not addressed under Phase One works which focussed on Response hub needs. Focus is on congested ground floor writing rooms, front counter and public areas and to improve locker/storage space following relocation of the property store to Watling.		150		
HQ Blocks 8 & 9	Major investment into both blocks to address backlog issues over environment, degradation of internal finishes, limitation of under floor power systems and to re-desk/improve work environments to support additional technology and business culture investments.		775		
HQ Block 1	Improvements to office and work environments maximise and make efficient use of space, includes furniture replacements, space planning and redesign		300		
HQ Block 5	Replacement of windows and security enhancements	75			
HQ Blocks 2,3 & 4*	General improvements to address back log issues and poor office layouts	220			
HQ Block 6	Major investment to address backlog issues over environment, degradation of internal finishes and to re-desk/improve work environments to support additional technology and business culture investment.		350		
HQ External Areas	Improvements to perimeter security, lighting security systems and upgrades to security gates and barrier systems to improve site access and alternative access arrangements	200			

Leek PS	Major investment to address backlog issues over environment, degradation of internal finishes and to re-desk/improve work environments to support additional technology and business culture investment.	175			
Longton Police Station	Major investment to address backlog issues over environment, degradation of internal finishes and to re-desk/improve work environments to support additional technology and business culture investment.	350			
Northern Area Custody Facility	Investment (on a rolling programme) to ensure custody environments continue to meet operational needs - both detention and as a workplace.	131	131	131	
Watling Custody	Investment (on a rolling programme) to ensure custody environments continue to meet operational needs - both detention and as a workplace.	63	63	63	
Operations Hub*	New indoor range facility to replaced existing leased outdoor range		9,000	9,000	
Stafford PS	Major investment to address backlog issues over environment, degradation of internal finishes and to re-desk/improve work environments to support additional technology and business culture investment.	500			
Linked dependencies					
Total Major Projects		***2,314***	***10,769***	***9,194***	***-***

Minor Projects		**£000's**	**£000's**	**£000's**	**£000's**
Doxey Police Post	Limited investment into a leased site to ensure working facilities meet operational need	25			
Lindum House	Improvements to communal areas and to improve the ground floor working environments		100		
Rugeley	Investment needed to adapt a Community fire station as a joint location	70			
Kidsgrove	Investment needed to adapt a Community fire station as a joint location		70		
Stone	Investment needed to adapt a Community fire station as a joint location		70		
Total Minor Projects		***95***	***240***	***-***	***-***

Business as usual		£000's	£000's	£000's	£000's
Refreshments and rest area replacements programme	Rolling programme force wide to ensure all rest areas meet required standards	100	100	100	100
Heating and Ventilation replacement programme	Boiler upgrades/AC improvements based upon PPM regimes	180	180	180	180
Security Upgrades	Door access control systems and physical security and general improvements	100	100	100	100
Fixed Plant - mechanical equipment, M&E services	Modernisation and plant and equipment replacements across the estate.	60	60	60	60
Internal and External Building Fabric Improvements	Includes new roofs, window replacements, works to redecorate and replace building finishes and to raise standard of condition	100	100	100	100
Fire Detection and Fire Safety	Essential upgrades to FD and FS systems based upon rolling PPM outcomes and inspections	60	60	60	60
Total Business as Usual		***600***	***600***	***600***	***600***

Total Estates Capital Programme		**3,009**	**11,609**	**9,794**	**600**

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IT and Digital Capital Programme

Investment Area	Business Benefit & Narrative	2021/22	2022/23	2023/24	2024/25
Network Infrastructure		£000's	£000's	£000's	£000's

WiFi Implementation	Deployment of new WP080 hardware across estate, offering improved connectivity	115	-	-	-
SDWAN Implementation	Implementation of new WP080 network hardware across estate with new circuits where required, to improve resilience and readiness for M365 and collaboration with partners	170	-	-	-
[redacted] Express Route	Improved connectivity to cloud hosted environments within [redacted]	200	-	-	-
[redacted] Certificate Based authentication	Improvements to agile working capability, maintaining security whilst offering onsite connectivity [redacted]	65	-	-	-
Total Network Infrastructure		***550***	***-***	***-***	***-***
Storage & Hosting		**£000's**	**£000's**	**£000's**	**£000's**
Application Streaming Service	Implement a replacement for [redacted] to allow migration away from end of life [redacted], and ensure ongoing availability of streamed applications [redacted])	150	-	-	-
Secondary DC relocation	Transfer secondary datacentre to a more cost-effective solution/location, benefiting from increased resilience and failover capability	300	-	-	-
Migrate [redacted] DBs to [redacted]	Transfer of force databases into new improved environment	50	-	-	-
Total Storage & Hosting		***500***	***-***	***-***	***-***
Business Systems		**£000's**	**£000's**	**£000's**	**£000's**
[redacted] (ERP)	Essential software upgrade, needed to maintain support contract for a critical business system	400	-	-	-
[redacted] Asset Management	To support the tracking of Commissioner assets, in line with the system used by SFRS	10			
Niche 2021 Upgrade	Continued development of new RMS system	50	-	-	-
Niche 2022 Upgrade	Continued development of new RMS system	-	50	-	-
Learning Management System	New system, which will allow a more comprehensive approach to CPD coordination in managing training and development records across the organisation	200	-	-	-

Total Business Systems		***660***	***50***	***-***	***-***
Operational Systems		**£000's**	**£000's**	**£000's**	**£000's**
[redacted]	Part of approved Control Room upgrade, to provide functionality for multimedia queues (channel shift)	70	-	-	-
[redacted]	To assess an either upgrade or alternative mapping solution	-	80	-	-
[redacted] & [redacted] mapping	Part of approved Control Room upgrade, to support underlying mapping solution in data accuracy	120	-	-	-
Digital Interview Recording	To allow recording of interviews in digital format, compatible with courtroom evidence. Current equipment is now failing	180	-	-	-
Digital Asset Management	To meet the demand to effectively track our digital resources	250	-	-	-
Digital Forensics (Infrastructure)	Overall solution needed for digital forensics, but needs vision and scope developing in more detail first	-	700	-	-
Protective Monitoring	No technological imperative to implement quickly, was deferred as a business in March 2020. Will facilitate monitoring of user behaviour/activity whilst using force systems, but brings significant load/demand on internal network if done globally	180	80	-	-
Vehicle Telematics	The ability to trace vehicle movements in real-time and report on performance data	90	-	-	-
Dashcams	The ability to record and upload video content from response vehicles, alongside BWV	600	-	-	-
Total Operational Systems		***1,490***	***860***	***-***	***-***
Device Replacement		**£000's**	**£000's**	**£000's**	**£000's**
Note 9 & Mobile device refresh	Essential investment into end of life user devices capable of supporting current OS and applications	400	1,000	1,000	1,000
End user device replacement	Essential investment into end of life user devices capable of supporting current OS and applications	250	250	250	250
Extension mobility	To allow port mobility across telephones, allowing hot desk culture and reduction in estate	68	-	-	-
Total Device Refresh		***718***	***1,250***	***1,250***	***1,250***

National Systems & Projects		**£000's**	**£000's**	**£000's**	**£000's**
ESN Readiness	Requisite local technology upgrades, in particular within the control room, to accept ESN technology - 'ESN Readiness'	1,500			
ESN	Current national airwave system is due to be decommissioned, and this is a mandatory change to adopt the new Emergency Services Network	1,500	1,500	5,600	-
National Systems Replacement	Budget allowance to capture all national programmes not yet approved or national funding to be allocated	500	750	750	750
Total National Systems & Projects		***3,500***	***2,250***	***6,350***	***750***
Data Driven Policing		**£000's**	**£000's**	**£000's**	**£000's**
Data warehousing platform (Corvus)	Underlying infrastructure to offer a Data Visualisation platform that will allow Improved decision making and access to force data	150	-	-	-
Tasking & Briefing	Improved decision making and access to data	400	-	-	-
Business Intelligence	A rich data-driven user experience, with accessible data across numerous devices	100	40	40	40
Total Data Driven Policing		***650***	***40***	***40***	***40***
Total IT & Digital Programme		**8,068**	**4,450**	**7,640**	**2,040**

Fleet Capital Programme

Investment Area	Business Benefit and Narrative	2021/22	2022/23	2023/24	2024/25
Fleet Replacement Programme	Ensuring that Staffordshire Police has a modern and fit for purpose fleet. A modern and fit for purpose fleet increases the Force's ability to respond, reducing fleet 'down time' as well as newer vehicles typically being more environmentally friendly. This investment replaces c.80 vehicles per annum	1,905	1,905	1,905	1,905
Total Fleet Capital Programme		***1,905***	***1,905***	***1,905***	***1,905***

Equipment Capital Programme

Investment Area	Business Benefit and Narrative	2021/22	2022/23	2023/24	2024/25
Equipment Replacement Programme	Ensuring that Staffordshire Police has a modern and fit for purpose equipment provision. This provision includes tactical body armour, ANPR replacement as well as specialist forensics and investigative equipment	150	150	150	150
Total Equipment Capital Programme		***150***	***150***	***150***	***150***

Police Fire and Crime Panel

1 February 2021

TREASURY MANAGEMENT STRATEGY REPORT 2021/2022

Report of the Staffordshire Commissioner

1. Background

1.1 In addition to the 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 and governance processes.

1.2 This report will detail the treasury management strategy for Staffordshire Police only; a separate report has been completed for the Staffordshire Fire and Rescue Service. Therefore, reference is made only to the **Staffordshire Police and Crime Commissioner ('the Commissioner')** as part of this report.

2. Introduction

2.1 This report outlines the Commissioner's Treasury Management Strategy for 2021/22.

2.2 Treasury management comprises the management of the Commissioner's 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.

2.3 The Commissioner conducts its treasury risk management within the framework of the Chartered Institute of Public Finance and Accountancy's (CIPFA) *Treasury Management in the Public Services Code of Practice 2017 Edition* (the CIPFA Code). 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.

2.4 The Annual Investment Strategy (AIS) for 2022/22 meets the requirements of the statutory guidance issued by the Ministry of Housing, Communities and Local

Government's (MHCLG) in its *Guidance on Local Government Investments 2018 Edition*.

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

3. **Summary recommendations**

3.1 The Police Fire and Crime Panel to note the proposed borrowing strategy for the 2021/22 financial year. 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 at the Commissioner; and
- a loan restructuring strategy that is potentially unlimited where this rebalances risk.

3.2 The Police Fire and Crime Panel to note in accordance with the MHCLG's Guidance on Local Authority Investments, the adoption of the Annual Investment Strategy (AIS) 2021/22 as detailed in **Section 7** of this report and summarised in **Appendix 3**. Also, to note the policies on:

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

4. **External Context**

Economic background

4.1 The impact on the UK from coronavirus, together with the exit from the European Union and future trading arrangements with the bloc, will remain a major influence on the County Council's treasury management strategy for 2021/22.

4.2 The Bank of England (BoE) maintained Bank Rate at 0.10% in November 2020 and also extended its Quantitative Easing programme by £150 billion to £895 billion. The Monetary Policy Committee voted unanimously for both, but no mention was made of the potential future use of negative interest rates.

4.3 UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The most recent labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In October, the headline 3-month average annual growth rate for wages were 2.7% for total pay and 2.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up by 1.9% while regular pay was up 2.1%.

4.4 GDP growth rebounded by 16.0% in Q3 2020 having fallen by -18.8% in the second quarter, with the annual rate rising to -8.6% from -20.8%. All sectors rose quarter-on-quarter, with dramatic gains in construction (41.2%), followed by services and production (both 14.7%). Monthly GDP estimates have shown the economic recovery slowing and remains well below its pre-pandemic peak. Looking ahead, the BoE's November MPR forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

4.5 GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in October, the third successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0.0% and deposit facility rate of -0.5% for some time.

4.6 The US economy contracted at an annualised rate of 31.7% in Q2 2020 and then rebounded by 33.1% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0.0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

Credit outlook

4.7 After spiking in late March as coronavirus became a global pandemic, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainly around coronavirus related loan defaults led to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits; reported impairments for Q3 were much reduced in some institutions. However, general bank profitability in 2020 is likely to be significantly lower than in previous years.

4.8 The credit ratings for many UK institutions were downgraded on the back of downgrades to the UK sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

4.9 Looking forward, the potential for bank losses could be greater than expected when government and central bank support starts to be removed remains a risk, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

Interest rate forecast

4.10 The County Council's Treasury Adviser, Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the end of 2023. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the Brexit transition period ends. The BoE extended its asset purchase programme to £895 billion in November 2020 while keeping Bank Rate on hold. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the County Council forecast.

4.11 Gilt yields are expected to remain very low in the medium-term while short-term yields are likely to remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year Gilts to rise to around 0.5% and 0.75% respectively over the time horizon. The risks around the Gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

4.12 Due to the ongoing risks associated with coronavirus, the treasury strategy retains the low risk approach adopted in recent years, based on prioritising security, liquidity and then yield.

5. Local Context

5.1 On 30 November 2020, the Commissioner held £70.8m of external borrowing and had £29.9m temporarily invested. The Commissioner's future requirements for borrowing and investments can be considered by reviewing its balance sheet forecasts.

Balance sheet

5.2 In terms of borrowing, the Commissioner discloses its Capital Financing Requirement (CFR) as part of its Statement of Accounts. This represents the underlying need to borrow for capital purposes i.e. the amounts that have been financed through external and internal borrowing rather than being permanently financed.

5.3 If the Commissioner increases debt to fund additional capital expenditure, this will increase its Loans CFR; conversely repaying debt through the Minimum Revenue Provision (MRP) will reduce its Loans CFR. The table below shows forecasts for the Commissioner's Loans CFR and how this will be financed through external and internal borrowing:

	31.03.20 Actual £m	31.03.21 Estimate £m	31.03.22 Forecast £m	31.03.23 Forecast £m	31.03.24 Forecast £m
Loans CFR	81.0	92.9	94.8	103.8	114.6
Less: External borrowing	(71.8)	(70.8)	(67.2)	(64.7)	(63.1)
Less: Capital financing from reserves	(4.2)	(7.0)	(4.5)	(4.1)	(4.0)
Internal / (over) borrowing	**5.0**	**15.1**	**23.1**	**35.0**	**47.5**

5.4 The table above shows that the Commissioner's Loans CFR is due to increase over the period of the TMSS due to the level of the capital programme. This will mean that despite using reserves for some of its capital financing, the Commissioner's internal borrowing requirements will increase to unsustainable levels, and further external borrowing will be required. A number of existing external loans also mature during the period, further increasing the internal borrowing requirement.

5.5 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Commissioner's total external borrowing should be lower than its highest forecast CFR over the next three years; the previous table shows the Commissioner will comply with this recommendation in this period.

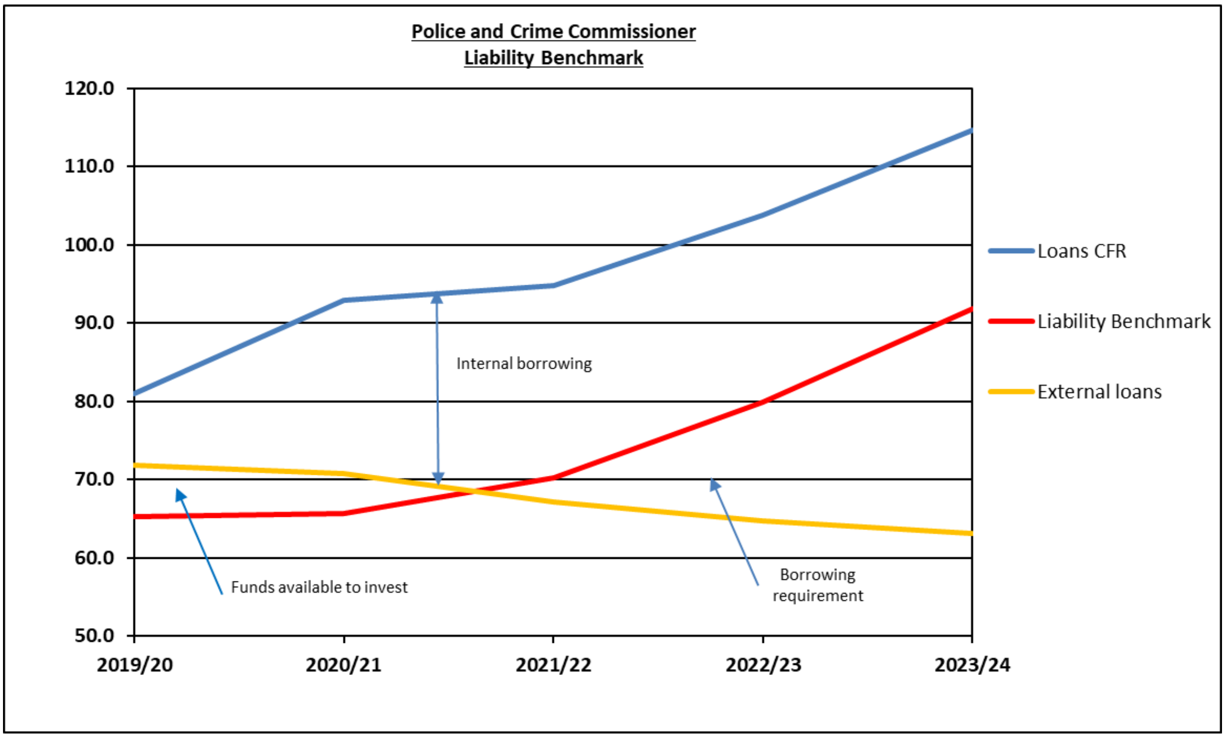
5.6 For investments, the Commissioner's total resources available are measured by its usable reserves and working capital less any amounts that have been internally borrowed. This is shown in the following table:

	31.03.20 Actual £m	31.03.21 Estimate £m	31.03.22 Forecast £m	31.03.23 Forecast £m	31.03.24 Forecast £m
Usable reserves	16.5	20.3	20.0	19.7	18.8
Working capital surplus	0.0	0.0	0.0	0.0	0.0
(Less Internal) / Add Over Borrowing	5.0	15.1	23.1	35.0	47.5
Investments/ (New borrowing)	**11.5**	**5.1**	**(3.1)**	**(15.2)**	**(28.7)**

5.7 This demonstrates the Commissioner's recent strategy in using internal borrowing to reduce the need for external borrowing and as a result, temporary investment levels. However, this strategy will not be sustainable as the Commissioner will not have sufficient internal resources to cover the internal borrowing requirement going forward and will need to borrow from external sources.

Liability benchmark

5.8 The CIPFA Prudential Code encourages local authorities to develop their own liability benchmark to manage treasury management risk. The liability benchmark represents the minimum amount of loans required to maintain cash balances at nil i.e. when all usable reserves and working capital surpluses are used to offset the amount of loans borrowed.



5.9 The chart shows that the Commissioner's Loans CFR (blue line) has been financed through a combination of external borrowing (yellow line) and internal borrowing (the difference between the yellow line and the blue line).

5.10 The chart indicates that from 2020/21, the Commissioner's level of external loans falls below the minimum required by the liability benchmark and this gap continues to widen over the period. This is because the Commissioner's Loans CFR, and hence its liability benchmark, increases throughout the period covered by the TMSS, driven by its capital investment. At the same time, the Commissioners level of external loans fall during this period as a number of these loans are repaid upon maturity.

5.11 Given these forecasts, the Commissioner will need to borrow externally as it will not have sufficient usable reserves and working capital to cover the amounts required internally. Therefore, the liability benchmark will have an impact on the Commissioner's borrowing strategy for 2021/22.

6. Borrowing strategy 2021/22

6.1 The Commissioner will hold £70.8m in external loans at the beginning of 2021/22 if no other loans are taken as part of its strategy for funding previous years capital programmes. The Commissioner will need to ensure total amounts borrowed do not exceed the authorised limit of £119.3 million, as disclosed in **Appendix 1**.

Objectives

6.2 The primary objective for the Commissioner when considering borrowing money is to strike an appropriate balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. Although relatively low interest costs may be secured for the short term, it is more difficult to predict interest costs over the long term.

Strategy

6.3 Given the significant cuts to public services and to local government funding, the Commissioner continues to address the key issue of affordability without compromising the long-term stability of its debt portfolio. As short-term interest rates have been lower than long term rates, it is more cost effective to use internal resources in lieu of borrowing in the short term.

6.4 The balance sheet analysis at **paragraph 5.2** and the liability benchmark analysis at **paragraph 5.6** both indicate the Commissioner will not have sufficient internal resources for use in lieu of borrowing and will need to borrow externally.

6.5 It is important to understand that not all of the borrowing requirement 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. Regulations emphasise the importance of minimising this risk and is discussed later in this report. This is 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.

6.6 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 2021/22 with a view to keeping future interest costs low. To this end, the Commissioner will consult with the treasury team at Staffordshire County Council.

6.7 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 in the year, the 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

6.8 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

6.9 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.

6.10 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

6.11 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.

6.12 Where the Commissioner has a long-term borrowing need, it can consider the alternative sources of borrowing other than the PWLB highlighted in **paragraph 6.8**. Seeking lower interest costs may introduce greater administrative and resource costs as well as increased risk and this would need to be balanced against the ease of access to loans from the PWLB.

6.13 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.

6.14 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 Staffordshire Police, Fire and Crime Panel. In addition, the outturn and half-year reports will update the position later in the year.

6.15 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

6.16 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.

- Currently loan restructuring would be very expensive and unappealing for the Commissioner. This is because Gilt yields are historically low. This would lead to large penalties to compensate the PWLB or its successor body if loans were repaid early.

6.17 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 Strategic Governance Board.

Policy on borrowing in advance of need

6.18 As the borrowing strategy proposed for 2021/22 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.

7. Annual Investment Strategy (AIS) 2021/22

7.1 It is the Commissioner’s borrowing strategy that determines its investment strategy. The current economic environment of relatively low rates favours the use of cash instead of borrowing, hence balances available for temporary investments are likely to be less. In addition, the Commissioner does not have sufficient cash to meet its capital requirements and is expected to have a borrowing need in 2021/22 (**see paragraph 5.10**).

7.2 Nevertheless, the Commissioner may have significant level of funds to invest at different points of the year; this usually represents income received in advance of expenditure plus balances and reserves held. In the previous financial year, the Commissioner’s investment balance ranged between £1.4 million and £54.5 million.

<u>MiFID II</u>

7.3 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 MMF’s, pooled funds, treasury bills and treasury advice.

7.4 For 2021/22, the Commissioner is not expected to meet the criteria to opt up to be a professional client (in particular the criteria to have continuous investment balances over £10 million) and will continue to be treated as a retail client by financial firms.

<u>Objectives</u>

7.5 The CIPFA Code requires the local authorities to invest their funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield.

7.6 The Commissioner’s objective when investing its cash is to strike an appropriate balance between risk and return, thereby minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

<u>Strategy</u>

7.7 The main characteristics which should determine an investment strategy are:

- the credit risk of the counterparties invested with;
- the length of the investment; and
- the type of financial instrument that is used.

7.8 The Commissioner has taken a low risk approach to investment and the AIS for 2021/22 will continue to do so. Short term unsecured bank investments have generally provided very low returns with the increasing risk from bail-in regulations. The Commissioner will continue to concentrate its short-term investments in more secure MMFs and government investments.

7.9 MHCLG Guidance on Local Government Investments specifies the types of financial instruments that local authorities can invest in and the Commissioner has divided its approved treasury investments into Standard Investments and Non-standard Investments.

<u>Standard investments</u>

7.10 The Commissioner considers Standard Investments to be those made with approved counterparties that do not require further approval from the Director of Finance at the Commissioner. These investments tend to be for a period of less than a year and are those most frequently used by the Commissioner. Standard Investments can be invested with:

- UK Government – central government or local authority, parish council or community council
- short term MMFs
- bank and building society investments

i) <u>Government</u>

7.11 The Commissioner invests with central government by using its Debt Management Account Deposit Facility (DMADF) account. Funds held in the DMADF account are backed by the UK Government so they are very secure; however, returns tend to be lower than those received elsewhere.

7.12 The Commissioner invests in term deposits with local authorities which can provide a higher return depending on the availability of, or the need for cash in the local authority lending market. Like central government investments, local government investments are not subject to bail in risk.

7.13 Although investments in the local authority lending market have a low risk of insolvency, they are not completely without risk. The financial risks of a few local authorities who have issued Section 114 notices have been documented in the press; the Commissioner will continue to monitor such developments and seek information from the County Council's Treasury team where necessary.

ii) <u>Money Market Funds (MMFs)</u>

7.14 Money Market Funds have high credit quality and are pooled investment vehicles consisting of money market deposits and similar instruments. Short-term MMFs that offer same day liquidity can be used as an alternative to instant access bank accounts. The Commissioner has used same day notice MMFs for some time as they have tended to provide greater security and a higher yield than bank accounts.

7.15 EU regulation introduced in January 2019 has meant most same day notice MMFs have converted from a Constant Net Asset Value (CNAV) to a Low Volatility Net Asset Value (LVNAV) structure. The assets of LVNAV MMFs are marked to market, meaning the dealing NAV (unit price) may fluctuate. However, LVNAV MMFs are allowed to maintain a constant dealing NAV provided they meet strict criteria and minimum liquidity requirements. Public debt CNAV MMFs are still available where 99.5% of assets are invested in government debt instruments.

7.16 The Commissioner will continue to use same day notice MMFs that meet the criteria listed below. These are considered to have sufficient high credit quality to be included on the Commissioner's Approved Lending List:

- Diversified – MMFs invest across many different investments meaning they achieve more diversification than the Commissioner could achieve on its own account.
- Short liquidity – cash can be accessed daily.
- Ring-fenced assets – the investments are owned by 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.

7.17 Like all treasury instruments, MMFs do carry an element of risk:

- The failure of one or more of an MMF's investments could lead to a run on MMFs, especially during a financial crisis; however, the new MMF regulations do limit this risk to some extent.
- If the UK enters a recession, there is a possibility that the Bank Rate could be set to at or below zero. This could mean interest earned from MMFs could become negative after the deduction of their fee. In this instance, the Commissioner could move funds to an alternative category of investment.

iii) Bank and building society accounts

7.18 The Commissioner can make investments with approved banks and building societies by using call accounts or term deposits. Investments held with banks and building societies run the risk of credit loss via a bail in, if the regulator determines that the bank is failing or likely to fail.

iv) Operational bank account

7.19 The Commissioner's banking provider is Lloyds Bank. Cash is 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 7.22** onwards.

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

7.21 Lloyds Bank Plc has seen a credit ratings upgrade since ring-fencing legislation was introduced; should the Lloyds credit rating fall, then small balances may be retained with the bank for operational efficiency. The Commissioner will continue to seek support from the County Council's Treasury team on bank credit risk and any changes will be determined by the Director of Finance at the Commissioner.

Standard Investment diversification

7.22 Risks to investments, such as those discussed for MMFs in **paragraph 7.17**, point towards the fundamental need for diversification across counterparties and investment categories, where possible. Diversification can help to protect the security of investments by limiting the Commissioner's loss in the event of a counterparty default. Diversification will not protect the Commissioner from a systemic failure of the banking sector even if the risk of this has diminished following the bail-in banking regulations.

7.23 Diversification can be achieved by setting a maximum amount to be invested with each counterparty, to limit risk and to ensure a spread of investments.

- No limits are proposed for government investments as these may be utilised for all the Commissioner's investments in certain circumstances.
- For MMF's a standard limit of £1.5m per MMF is in place to meet liquidity requirements.
- For Lloyds Bank a standard limit of £0.5m is set that minimises processing costs and provides a small amount of additional liquidity.

7.24 During 2020/21, the Commissioner held additional balances from grant receipts from the start of the second quarter. To allow flexibility for investments, the Director of Finance at the Commissioner agreed to increase the standard limits to temporary limits of £4.0m for MMFs and £1.0m for Lloyds Bank. The Commissioner will continue to use the higher temporary limits in 2021/22 until the level of cash balances fall to allow reverting to using the standard limits.

7.25 Where cash balances are low then this may mean that all investments are placed with the MMFs and Lloyds Bank. However, balances will be within the limits stated above.

7.26 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 Strategic Governance Board (Police).

Non-Standard Investments

7.27 The Commissioner considers Non-Standard Investments to be all other types of approved investment counterparties that are not included as part of Standard Investments i.e. those investments that are used less frequently and may require further approval from the Director of Finance at the Commissioner.

7.28 The Commissioner does not currently use Non-Standard Investments due to the expectations for lower cash balances in the future and the potential for increased risk.

The Credit Management Strategy for 2021/22

7.29 Investments made by the Commissioner should be of 'high credit quality'. Although this can be difficult to define, credit ratings can be used as published by external credit rating agencies (the three main agencies are Moody's, Standard & Poors and Fitch). Credit ratings can be obtained from the County Council's Treasury team, where available.

7.30 For 2021/22, the minimum credit-rating thresholds are set at a long-term rating of 'A- 'where available. Counterparties that are rated below this level are excluded. However, credit ratings are not the only aspect of how creditworthiness is assessed.

7.31 The following elements are also factored in when evaluating creditworthiness:

- Potential government support.
- Credit Default Swap prices (CDS) (i.e. the cost of insuring against counterparty default).
- Share prices and bond yields.
- Balance sheet structure.
- Macro-economic factors.
- A subjective overlay, i.e. a judgement being made about whether the counterparty should be recommended or not.

7.32 The Commissioner remains responsible for all its investment decisions. The County Council's Treasury team will continue to have treasury management meetings with the Commissioner on a quarterly basis where a review of the Lending List will take place.

7.33 Under stressed market conditions, additional meetings with County Council's Treasury 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.

Non-treasury investments

7.34 Under the CIPFA Code 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.

7.35 Such non-treasury investments should be assessed as part of a separate 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.

7.36 In the absence of any legal powers to do so the Commissioner does not currently hold any non-treasury investments and, therefore, no additional commercial strategy is required.

Risk

7.37 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

7.38 Within the Commissioner'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.

7.39 The proposed AIS has been evaluated against these risks and 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.

8. Review of strategy

8.1 The Commissioner will prepare a revised strategy when there are significant changes to the following factors:

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

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

9. Policy on the use of external service providers

9.1 Currently the Commissioner has no contracted external treasury advisor and this is considered appropriate with the simple arrangements set out.

9.2 The treasury service for the Commissioner is provided by the County Council's Treasury team, 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. This contract is currently out to tender so a different provider may be in place during 2021/22 but the service levels provided would be, by necessity, very similar.

10. Investment management training

10.1 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.

10.2 The County Council's treasury team who provide the treasury service are experienced and qualified. The officers attend regular CIPFA and treasury consultant training seminars throughout the year as well as speaking to brokers and fund managers to further understand the market.

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

11. SCC Memorandum of Understanding

11.1 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 County Council, and the degree of co-operation required from the Commissioner for the County Council to fulfil its role. The MOU will be reviewed during 2021/22 to ensure that it meets the requirements of the Commissioner.

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Background Documents

1. Treasury Management in the Public Services: Code of Practice (CIPFA) (2017)
2. 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)
6. Localism Act 2011 – Guidance on the General Power of Competence in sections 1 to 6.

Strategic Governance Board (Police)
1 February 2020

Treasury Management Indicators

Indicator	Estimate 2021/22	Estimate 2022/23	Estimate 202324
1. External debt			
a. Authorised limit	£119.3m	£117.2m	£114.9m
b. Operational boundary	£109.3m	£107.2m	£104.9m
c. External loans	£80.2m	£82.7m	£83.1m
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 Director of Finance'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.*			
2. Interest rate exposures			
a. Upper limit (fixed)	£95m	£104m	£115m
b. Upper limit (variable)	(£60m)	(£60m)	(£60m)
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.			
3. Maturity structure of borrowing	Upper Limit	Lower Limit	
Under 12 months	10%	0%	5.1%
12 months and within 24 months	10%	0%	3.5%
24 months and within 5 years	30%	0%	7.2%
5 years and within 10 years	50%	0%	21.0%
10 years and above	100%	25%	63.2%
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.*			
4. 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

Appendix 2

Strategic Governance Board (Police)
1 February 2021

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 PFCC 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.

Strategic Governance Board (Police)
1 February 2020

Lending List – December 2020	
	Time Limit
Regulation Investments	
UK Government DMADF account	6 months
UK Local Authority	12 months
Bank	
Lloyds (as banker) (£0.5m hard limit)	call only
MMF's	
Aberdeen Standard (£1.5m hard limit)	call only
CCLA (£1.5m hard limit)	call only
Morgan Stanley (£1.5m hard limit)	call only
State Street (£1.5m hard limit)	call only

Appendix 4

Strategic Governance Board (Police)
1 February 2020

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 reduction 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.

Staffordshire Police, Fire and Crime Panel
1st February 2021

Reserves Strategy Update

Report of the Staffordshire Commissioner

Introduction

Statutory provision is made within the Local Government Finance Act 1992 that requires precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure. The Director of Finance/ S151 Officer for the Staffordshire Commissioner's Office has a duty to report on the robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its annual budget requirement.

This paper gives due consideration to the overall level of reserves held as at 31 March 2020 and the forecast position as at 31 March 2021. The Panel are asked to note the overall impact on Reserves as incorporated within the approved Medium Term Financial Strategy (MFTS).

The Reserves Strategy was last approved in February 2020 as part of the budget setting process for the current year and has now been updated to incorporate and reflect:

- The updated MFTS for 2021/22 to 2024/25
- The actual Reserves position as per the Audited Statement of Accounts for 2019/20, and a forecast for 2020/21
- The impact of approved reserve utilisation as per the current and updated strategy

A number of different reserves are held by the Staffordshire Commissioner (both usable and unusable) in line with the CIPFA guidance, however this paper focuses on the two key areas of reserves that impact on the future financial strategy:

- **General Reserve**, to allow for unexpected / emergency events –balance as at 31 March 2021 is forecast to be £6.4m (3%) (see **Appendix 1**),

- **Earmarked Reserve** – to meet future known or predicted requirements – balance as at 31 March 2021 is forecast to be £13.9m (See **Appendix 1**)

Overall the level of Usable Reserves at 31 March 2020 is £16.5m and forecast to increase by £3.8m in year to £20m by 2021. The general reserve will be maintained at £6.4m while the earmarked reserves (including capital reserves) are forecast at £13.8m by 2021. These reserves are low by sector standards in line with the commissioners reserves policy.

RECOMMENDATIONS

That the Police Fire and Crime Panel note:

1. the overall reserves position for both General and Earmarked Reserves as contained within this report,

2. to consider the adequacy and proposed earmarking of the reserve that will be incorporated into the budget setting exercise for 2021/22, and utilisation of reserves as incorporated within the updated MTFS

3. the updated Reserves Strategy

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1. Prudential Code and Capital Spend

1.1. CIPFA's (The Chartered Institute of Public Finance and Accountancy) Prudential Code requires chief finance officers in local authorities to have full regard to affordability when making recommendations about the local authority’s future capital programme. Such consideration includes the level of long-term revenue commitments. Indeed, in considering the affordability of its capital plans, the Staffordshire Commissioner is required to consider all of the resources available, together with the totality of its capital plans and revenue forecasts for the forthcoming year and into the medium term.

1.2. The statutory reporting regime discussed within this paper and effective financial management underpin the need for clear, transparent reporting arrangements for reserves and CIPFA recommend that there should be clear protocol setting out the following:

- the reason for / purpose of the reserve;
- how and when the reserve can be used;
- procedures for the reserve's management and control; and
- timescale for review of the reserve to ensure continuing relevance and adequacy.

1.3. Whilst it is primarily the responsibility of the Staffordshire Commissioner and its S151 Officer and Treasurer to maintain a sound financial position, our external auditors Ernst & Young annually review for any material uncertainties and test to ensure that Staffordshire Police remain a going concern. Even where as part of their wider role Ernst & Young report on the organisation’s financial position, it is not however, their responsibility to prescribe the optimum or minimum level of reserves for authorities in general.

2. Types of Reserve

2.1. When considering the Medium Term Financial Strategy and preparing annual budgets the Staffordshire Commissioner should consider the establishment and maintenance of reserves. Reserves can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves

- a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves

- a means of building up specific funds, often referred to as earmarked reserves, to meet known or predicted requirements.

- A capital receipts reserve generated from the sale of surplus assets, which in line with legislation can only be re-invested back into capital goods (or whilst specific legislation allows transformation spend).

3. Reporting of Reserves

3.1. The IFRS-based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) introduced the Movement in Reserves Statement to local authority financial statements in the 2010/11 financial year. This Statement presents the movement in the year of the reserves of the Authority analysed into **usable** reserves, (e.g. General and earmarked reserves) and unusable reserves.

3.2. The total Usable Reserves as per the statement of accounts is £16.5 million as at 31 March 2020, being the General Fund £6.4m and Earmarked Reserves £10.1m.

The Movement in Useable Reserves Statement can be found on page 56 of the Statutory Accounts for 2019/20, and is shown below:

31 March 2019 £'000		31 March 2020 £'000
4,564	**General Fund**	6,350
4,868	**Capital receipt reserve**	3,150
331	**Capital grants unapplied**	331
15	Reshaping the future	1,011
0	IT Transformation Reserve	2,205
0	Covid-19	478
0	ESN reserve	617
0	Capital Reserve	1,286
294	Insurance reserve	348
0	Pension reserve	1,314
0	Collaboration Reserve	250
597	Other operational reserves	2,636
906	**Earmarked Reserves**	10,145
10,669	**Total Usable Reserves**	**19,976**

3.3. Unusable reserves arise out of the interaction of legislation and proper accounting practice either to store revaluation gains or as adjustment accounts to reconcile accounting requirements (i.e. reconciliation of reporting standards to statutory requirements)

3.4. Section 26 of the Local Government Act 2003 gives Ministers in England and Wales a general power to set a minimum level of reserves for local authorities. However, the Government has undertaken to apply this only to individual authorities in the circumstances where an authority does not act prudently, disregards the advice of its chief finance officer and is heading for serious financial difficulty.

3.5. Whilst it remains the responsibility of the Director of Finance/S151 Officer for the Staffordshire Commissioner to advise on the overall level of reserves that are held; the Staffordshire Commissioner should assist by providing clear protocols for the establishment and use of reserves, as reserves should not be held without a clear purpose.

3.6. The Staffordshire Commissioner has indicated that the level of General reserves be set at a target level of 3% of the annual revenue budget. As per Section 5 of this report the Panel should note that the level of General Reserves has now been restored to 3% during the current financial year in line with the approved budget and MTFS.

4. Reserves Strategy and Future Outlook

4.1. This paper gives due consideration to the overall level of reserves held as at 31 March 2020 and the forecast position for 31 March 2021, and the panel are asked to note the overall position as scheduled in **Appendix 1**.

4.2. **General Reserve**

4.3. The Commissioner's policy for the General Reserve Fund is for it to hold as a target balance of 3% of the net revenue budget of the combined budgets of the Commissioner and Staffordshire Police. This is currently considered to be a minimal safe level which would afford two incidents of maximum exposure to loss in any one year.

4.4. The maximum exposure to loss for a particular event 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 MTFS.

4.5. At the end of March 2020 the General Reserve was £6.4m and it is forecasted to maintain the reserve level in year. This represents 3% of the annual revenue budget.

4.6. **Earmarked Reserve**

4.7. The Earmarked Reserve provision is required not only to fund future projects and investments but also to provide funding –

- To cover specific risk items that are excluded from the MTFS but may present as financial pressures over the life of the MTFS such as the current age discrimination changes to public sector pensions
- To cover areas of the budget subject to fluctuations in spend based on risk such as self-insured Insurance claims
- Reserves earmarked to support transformation. Whilst current legislation allows for the use of capital receipts to fund transformation this means these receipts would be used on revenue spend as opposed to re-investing back into assets (which would increase long term debt). The Commissioner is re-investing all receipts back into the acquisition of new assets.
- To provide for future contingent liabilities that have been identified within the statutory accounts,
- Reserves held for specific operational requirements. The response to Covid from Staffordshire Police has been funded from such an earmarked reserve

4.8. The Balance on this reserve as at 31 March 2020 was £10.1m and is forecast to increase in year by £3.8m to close the year at £13.9m. This increase in the main is driven by the upfront funding for the Uplift programme received in 2020/21.

5. Reserve Forecast

5.1. The following table represent the forecast Reserves as stated in the MTFS. At the 31 March 2021 the total reserves represents 3% of the annual revenue budget.

	2020/21 Budget £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
General Fund	6,373	6,373	6,373	6,373	6,373
Earmarked Reserves					
Transformation Reserve	3,216	3,216	3,216	3,216	3,216
Capital Reserve	1,935	1,580	1,225	221	0
Insurance Reserve	987	987	987	987	987
Pensions Reserve	2,211	2,211	2,211	2,211	2,211
Collaboration Reserve	57	57	57	57	57
Uplift Reserve	2,644	2,644	2,644	2,644	2,644
Operation Reserves	2,848	2,933	3,018	3,103	3,188
Total Earmarked Reserves	13,898	13,628	13,358	12,439	12,303
Capital Receipt Reserve	1,775	0	0	0	0
Unapplied Grants	331	331	331	0	0
Total Reserves	**22,377**	**20,332**	**20,062**	**18,812**	**18,676**

Usable Reserves forecast 31 March 2021

Actual 31-Mar-20 £'000		Transfer Out £'000	Transfer In £'000	Forecast 31-Mar-21 £'000
6,350	**General Fund**	0	23	6,373
	Earmarked Reserves			
3,216	Transformation Reserve	0	0	3,216
1,903	Capital Reserve	0	32	1,935
348	Insurance Reserve	(94)	733	987
1,164	Pensions Reserve	0	1,047	2,211
250	Collaboration Reserve	(193)	0	57
0	Uplift Reserve	0	2,644	2,644
3,264	Operation Reserves	(1,107)	691	2,848
10,145	**Total Earmarked Reserves**	**(1,394)**	**5,147**	**13,898**
3,150	**Capital Receipt Reserve**	(3,448)	2,074	1,775
331	**Unapplied Grants**	0	0	331
19,976	**Total Reserves**	**(4,842)**	**7,244**	**22,377**

The following earmarked reserves have been established (or aggregated as shown above) for the following purposes:

Transformation – These reserves are held to support transformation activity, and are divided between a general transformation reserve and an IT/Digital specific transformation reserve

Capital Reserve – to fund future capital projects on assets with a short asset life, as well as to support any urgent H&S works of a capital nature

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.

Pension Reserve – Provides provision around future unknown costs relating to the public sector pensions age discrimination case (McCloud) as well as for flexibility in the payment of ill health pension payments to the pension fund

Collaboration Reserve – to support the one off costs associated with local public sector collaboration. This reserve is used to either support projects aimed at generating a financial return on the one off investment or improving partnership working and outcomes

Uplift reserve – to support the recruitment of c.300 additional officers into Staffordshire over a three year period, as part of the Governments 20,000 uplift programme. Funding for this programme has been front loaded int0o year one (2020/21) leading to the establishment of a reserve to equal out programme expenditure

Operational Budget Reserve – this includes a number of specific earmarked reserves, including the reserve used to deal with the direct costs incurred as part of Covid-19.

Report to the Police Fire and Crime Panel

1st February 2021

Police Capital Strategy and Capital Programme 2021/22 to 2024/25
(Incl. Minimum Revenue Provision Policy)

Report of the Staffordshire Commissioner

INTRODUCTION

As part of the overall financial strategy for the Staffordshire Commissioner a four year Capital Programme has been prepared. This report schedules the proposed investment programme for 2021/22 to 2024/25 and presents the indicators required within the updated Prudential Code. This all forms part of the Capital Strategy for the Staffordshire Commissioner, covering the Policing requirements for the next four years.

The Prudential Code requires local authorities to determine that capital expenditure and investment decisions are affordable, prudent and sustainable, and to set limits on the amount they can afford to borrow in the context of wider capital planning. The Capital Strategy is part of the Staffordshire Commissioner's sound medium term financial planning process, ensuring there is a clear strategy supporting the next four years of capital investment.

The Capital Strategy sets out how the long-term context in which capital investment and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes in line with the current Staffordshire Policing Plan. It also demonstrates that the Staffordshire Commissioner takes capital and investment decisions in line with the objectives and properly takes account of stewardship, value for money, prudence, sustainability and importantly affordability.

This report should also be considered alongside the Treasury Management Strategy, with both reports covering the reporting requirements of CIFPA's Prudential Code and Treasury Management in the Public Sector.

This report is scheduled to be presented to the Ethics, Transparency and Audit Panel (ETAP) on 10th February 2021.

RECOMMENDATIONS

That the Police Fire and Crime Panel note:

a) the four year Capital Programme for 2021/22 to 2024/25 as set out in Appendix 1,

b) the Capital Strategy for 2021/22

c) the Prudential Indicators that are set out within Appendix 2 including the Capital Financing Requirement for the four year period

d) that the funding of capital expenditure from Reserves for the period 2021/22 to 2024/25 is in line with the updated Reserves Strategy

e) note the Minimum Revenue Provision (MRP) policy statement incorporated within this report

Matthew Ellis

Staffordshire Commissioner

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1. Background

1.1 The Capital Strategy forms a key part of the Staffordshire Commissioner's overall Corporate Planning Framework. It provides a mechanism by which the Commissioner's capital investment and financing decisions can be aligned over the medium term 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.

1.3 There are four main areas of spend which feature within the Capital Programme;

- Estates and Facilities
- Transport
- Equipment
- Information systems and technology

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 to meet the vision, aims and priorities of the Commissioner and Staffordshire Police;
- set out how the Commissioner and Staffordshire Police identify and prioritise capital requirements and proposals;
- 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 the communities served within Staffordshire.

3. Governance of the Capital Programme

3.1 A governance process is clearly established within the Force and will continue to be adhered to, will follow 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 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 business case submissions.

- The Ethics, Transparency and Audit Panel (ETAP) 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).

- The Force Strategy Board (FSB) which has overall responsibility for management and monitoring of the capital programme and ensuring the impact on service delivery is well managed and ensures value for money.

- The Enabling Board which has overall responsibility for the capital funding and monitoring of the capital programme, within the financial regulations and for sign off of Outline Business Cases after legal and finance approval.

3.2 The capital monitoring report is included within the monthly management accounts which is reviewed by the Finance Panel, which is a sub group of the Ethics, Transparency and Audit Panel (ETAP). The Chief Accountant regularly meets with each capital lead to discuss the capital monitoring position and to scrutinise capital spend.

4. Capital Priorities

4.1 The capital strategy must recognise that the financial resources available to meet the requirements of the current Staffordshire Policing Plan and the five key priority areas:

- Modern Policing
- Early Intervention
- Supporting Victims and Witnesses
- Managing Offenders
- Public Confidence

4.2 The bringing together of blue light services under a single governance route to the Staffordshire Commissioner provides opportunities to co-locate and share assets to the good of the community, delivering efficiencies and savings.

4.3 The Staffordshire Commissioner will seek to prioritise investment in order to deliver economy and efficiency within the organisation. This prioritisation will be achieved though the robust governance arrangements discussed above.

5. Funding Approach

5.1 The Staffordshire Commissioner approach for Police'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.

5.2 The main sources of capital funding are summarised below:

- **Central Government Funding Grants**
  The Home Office provide an annual general capital grant in addition to any ring-fenced grants. This capital grant has remained the same from previous years which has created additional upward pressure on capital financing costs especially funding for the national projects.

- **The use of internal cash balances**
  Interest rates on cash balances, over recent years, have remained low which has resulted in this being a more efficient use of cash to invest in the capital programme rather than taking additional external debt. The use of internal cash is an approach that has been undertaken successfully during the last few financial years.

- **The use of Earmarked Reserves**
  The Staffordshire Commissioner has a Reserves Strategy which includes the Earmarking of Reserves to support the capital programme. Funding into the medium term has been identified though this approach and remains a key funding strategy.

- **The use of Capital 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.

- **Direct revenue funding**
  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.

- **Borrowing and Leasing**
  Under the Prudential Code the Staffordshire 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 within the MTFS estimates.

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.

The Staffordshire 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 2), in line with the Treasury Management Strategy.

This prudent approach to borrowing will continue into the medium term. However, should borrowing be required the Commissioner will continue to consider on a cautious and prudent basis as informed by a specialist team contracted from Staffordshire County Council in relation to Treasury Management who work closely with the finance team.

The organisation will consider utilising operational leases where possible for the purchase of minor equipment, IT and vehicles as supported by an appropriate business case.

6. Risk Management

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

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

6.3 The Commissioner will require the Chief Constable to put in place a mechanism to manage risk. The Commissioner and Staffordshire Police considers its appetite to risk to be low. Risks are assessed continually from both an operational and financial perspective.

6.4 In carrying out due diligence, potential project risk are identified and relevant mitigation measures documented prior to approval.

6.5 All risks are then managed in line with the Force's Risk Management Policy which includes documenting risks on a risk register, assigning owners, regular review of risks and Red Amber Green (RAG) rating.

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

6.7 There are many categories of risk to be mindful of; these are detailed in **Appendix 3:**

- Credit Risk
- Liquidity Risk
- Interest Rate Risk
- Exchange Rate Risk
- Inflation Risk
- Legal and Regulatory Risk
- Fraud, Error and Corruption

7. Capital Programme 2021/22 to 2024/25

7.1 The proposed Capital Programme for 2021/22 to 2024/25 is contained within **Appendix 1** of this report. The total Capital Programme for 2021/22 has been estimated at £13.1m, for 2022/23 £18.1m, for 2023/24 £19.4m and £4.7m for 2024/25.

7.2 The Staffordshire Commissioner is required to set estimates, impose limits and to report and publish actuals in line with The Prudential Code. The indicators for adoption by the Authority for 2021/22, 2022/23, 2023/24 and 2024/25 are set out in **Appendix 2**.

7.3 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 Appendix 2 and also the accompanying Treasury Management Strategy.

7.4 The core Capital Programme was considered by both the Commissioner and the Force at the Strategic Governance Board meeting in January 2021. 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.

7.5 Over recent years the Force has seen significant investment through the capital programme into digital technology. The capital programme for 2021/22 to 2024/25 will continue to focus investment on the shared priority of Digital Technology, with an increased focus on maximising the opportunities for sharing estate both with Staffordshire Fire and Rescue service as well as other public sector partners to drive value for the taxpayer and allow for the prioritisation of investment in Digital Technology.

7.6 The capital programme will see debt as a percentage of the net revenue budget increase throughout the period of the MTFS. On this metric the affordability of the capital programme will continue to consume a greater percentage of revenue spend over the MTFS period. The Commissioner is committed to maintaining revenue contributions to the capital programme, in particular for purchasing short life assets. This strikes a fair balance between the need for investment and the burden left to future taxpayers to service these investments.

7.7 The Commissioner has been able to increase the capital programme investment compared to the programme previously proposed due to a number of factors. These include; increased capital receipts, direct revenue financing of the capital programme, a stronger internal cash position as well as improving confidence in the Force's ability and approach to managing capita spend and planning. The following investments are proposed as part of the 4 year capital programme.

7.8 Digital Technology investment is proposed to maintain the significant improvements in capability seen due to previous investments, to improve core infrastructure, build on the benefits witnessed from insourcing Technology Services and for improvements in digital capabilities to be leveraged. The main proposed investments in the four year programme are:

- £0.550m on network infrastructure to improve network resilience and support increased off site working.
- £2.350m for enhancements to operational software and capabilities over the life of the MTFS
- £4.468m for device refresh including mobile technology over the life of the MTFS
- £10.1m for the assumed local costs of the Emergency Services Network within the capital programme. Whilst work is ongoing to ensure the costs passed to Forces and Commissioners is minimised this is included as a planning assumption based on the Home Office ESN funding model. Within the revenue budget £0.240m has been allocated for ESN costs that cannot be capitalised under statute.
- £2.750m for national IT & Digital programmes. Whilst the projects are currently known, the funding costs and split are not, therefore this is included as a funding placeholder

7.9 The vehicle replacement programme does not see an increase in the number of vehicles the Force operates outside of the uplift programme. An investment of £1.905m will allow for the replacement of c.80 vehicles, with the vehicles proposed for replacement being on average 7 years old.

7.10 Additional capital spend in year to support the uplift programme will be required and will be added to the capital programme for the costs of the uplift in Officer numbers. This is to be funded via revenue contributions from the ring-fenced uplift grant and is not yet shown in the capital programme.

7.11 The estates programme focusses on the costs of maintaining the current estate. Whilst a joint Estates strategy is being finalised with Staffordshire Fire and

Rescue Service, it is envisaged that this strategy will see a number of projects within this maintenance programme not being undertaken due to Staffordshire Police taking advantage of the modern PFI facilities offered by the Fire service under this joint estates strategy. However, for prudence whilst the strategy is being finalised and approved provision has been made for these projects.

7.12 Alongside the ability to work and operate from modern facilities contained within the estate operated by the Fire Service is the ability to generate capital receipts and ongoing revenue savings from the disposal of surplus estate. These receipts have been reinvested back into the capital programme and the revenue savings are used to support the revenue budget. The main proposed investments in the four year programme are:

- A rolling refurbishment programme on the current Police Estate including provision for the refurbishment of Burslem, Longton, Leek, Stafford and Cannock Police Stations

- A provision on £19m for a new fire arms training range, scheduled for 2022/23. The Commissioner has approved an outline business case, with a full business case being developed to be considered by the Commissioner elected in May 2021 and is included for planning purposes only.

- A programme of mechanical, electrical, fire and security upgrades. This will also include investment in modern energy efficient and environmentally friendly heating.

8. Funding the Programme

8.1 **Appendix 1** also details the proposed funding strategy for the 2021/22 programme together with indications for the funding of the following three years.

8.2 During the four year programme a combination of Capital Receipts (previous and future), Earmarked Reserves, direct funding of capital expenditure from revenue, capital grant and the use of Internal Cash and short term borrowing requirement (see Appendix 1). This is also reviewed within the Treasury Management Strategy Report.

8.3 It will remain a key priority to fund as much of the programme as possible through direct revenue contribution should additional savings be available in year, with funding of short life assets the key priority to reduce future MRP requirements.

9. Minimum Revenue Provision (MRP) Policy Statement

9.1 The Staffordshire Commissioner for Police is required each year to set aside some of its revenues as provision for debt repayment. This MRP provision essentially allows the Authority to “pay off” an element of the Capital Financing Requirement annually through a revenue charge known as the Minimum Revenue Provision (MRP).

9.2 The MRP was previously defined by statute with regulations providing for MRP as a 4% charge in respect of the amount of the Capital Financing Requirement (CFR). Under current regulations, the rules have been replaced with a general duty for a local authority to make an MRP charge to revenue which it considers prudent. The new regulation does not itself define “prudent provision”. However, guidance has been issued specifying methods for MRP calculation, which the Secretary of State considers prudent thereby effectively determining prudent provision.

9.3 **The Commissioner’s MRP Policy is as follows**:

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

- 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

- 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
IT	10 years
Estates	40 years
Freehold Land	50 years

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

- For assets acquired by finance lease 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.

9.4 This MRP Policy option is supported by the Commissioners treasury management advisors, Arlingclose, as a prudent provision to repay borrowing.

9.5 Regulations require the Authority to approve an MRP Statement in advance of each year. It is recommended that the Authority continue to apply a MRP to capital expenditure funded by borrowing under the ‘Asset Life Method’: which calculates the MRP charge based on the estimated life of the asset for which the borrowing is undertaken.

9.6 The total level of debt for the Staffordshire Commissioner as at 31 March 2021 is forecast to be around £94.8m, and is forecast to increase to £110.7m by March 2025 based upon the capital investment requirements outlined within this paper.

Appendix 1

Staffordshire Commissioner Police

Summary Proposed Capital Programme 2021/22 to 2024/25

Capital Investment Area	Budget 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000	Estimate 2024/25 £'000
Information Systems and Technology	8,068	4,450	7,640	2,040
Estates and facilities	3,009	11,609	9,794	600
Vehicles	1,905	1,905	1,905	1,905
Operational equipment	150	150	150	150
Total Capital Programme	**13,132**	**18,114**	**19,489**	**4,695**
Capital Funding				
Capital Receipts	(1,775)	(1,450)	(350)	0
Deferred Capital Receipts	(99)	(59)	(20)	0
Capital Grants	(174)	(174)	(174)	(174)
Capital Specific Grants	0	0	(331)	0
Revenue Contribution to Capital	(2,073)	(2,073)	(2,073)	(2,073)
Earmarked Reserves	(355)	(355)	(1,004)	(221)
Borrowing Requirement	(8,656)	(14,003)	(15,537)	(2,227)
Total Funding	**(13,132)**	**(18,114)**	**(19,489)**	**(4,695)**

Note : See Budget / MTFS report for further detail on the four year investment programme

Appendix 2

Staffordshire Commissioner
Prudential Indicators (Policing)

A. Indicators for Affordability, Prudence and Capital Expenditure

1. Ratio of Financing Costs to Net Revenue Stream

Estimate 2021/22 %	Estimate 2022/23 %	Estimate 2023/24 %	Estimate 2024/25 %
5.9%	8.0%	8.6%	2.0%

This shows the capital financing costs (interest charges/receipts and repayment of loans) as a proportion of government grant (revenue) and Council Tax. This allows the Authority to track how much of its annual income is needed to pay for its capital investment plans proportionate to its day to day running costs.

2. Estimates of Capital Expenditure

Estimate 2021/22 £m	Estimate 2022/23 £m	Estimate 2023/24 £m	Estimate 2024/25 £m
13.1	18.1	19.5	4.7

Expressed in absolute terms rather than as a ratio, this shows the overall level of capital investment irrespective of how it is being funded.

3. Capital Financing Requirement/Gross Debt

Estimate 2021/22 £m	Estimate 2022/23 £m	Estimate 2023/24 £m	Estimate 2024/25 £m
94.8	103.8	114.6	110.7

This indicator effectively shows the level of the Authority's underlying need to borrow for capital purposes.

Net borrowing is not expected to exceed the total of the capital financing requirement (except in the short term)

It is a key indicator of prudence that, over the medium term, net borrowing is only for capital purposes.

B. Indicators for Treasury Management

1. Treasury Management Code of Practice

   The Authority has adopted the CIPFA Code of Practice on Treasury Management

2. External Debt

	Estimate 2021/22 £m	Estimate 2022/23 £m	Estimate 2023/24 £m	Estimate 2024/25 £m
Authorised Limit	119.3	117.2	114.9	114.9
Operational Boundary	109.3	107.2	104.9	104.9

This indicator identifies two limits in relation to external debt, and excludes PFI.

The *Authorised Limit is the maximum level of external borrowing which should not be exceeded. The limit is linked to the estimated level of borrowing assumed in the Capital Programme.*

In addition *an Operational Boundary is required which represents the Treasurer's estimate of the day to day limit for the Treasury Management activity based on the most likely i.e. prudent but not worst case scenario.*

Appendix 3

Glossary of Risk Management Categories

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.

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. The exposure to this risk will be monitored via the revenue and capital budget monitoring processes. Appropriate interventions will occur as early as possible.

Interest Rate Risk 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.

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.

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 any exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

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.

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 Counter-Fraud and Corruption and Declaration of Interests.

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