



THE POLICE & CRIME COMMISSIONER FOR CLEVELAND

DECISION RECORD FORM

REQUEST:			
For Approval			
Title:			
2015-16 Budget and Financial Plans			
Executive Summary:			
Attached to this decision form are the following papers:			
<ul style="list-style-type: none"> - Robustness of Estimates and Adequacy of Financial Reserves - Budget 2015/16 and Long Term Financial Plan 2016/17 to 2018/19, and Capital Plans 2015/16 to 2018/19 - Cleveland Police LTFP 2015/16 to 2018/19 - Treasury Management and Prudential Indicators 2015/19 - Minimum Revenue Provision 2015/16 			
<p>These papers set out the financial plans of the PCC for 2015/16 and provide forecasts for the following 3 financial years. The PCC is required to set his budget for 2015/16 by the 1st March 2015 in line with the legal requirement to do so.</p>			
Decision:			
The PCC is asked to take cognisance of the Robustness of Estimates Report and agree to the recommendations in all 5 papers and in doing so set the Revenue and Capital budgets for 2015-16.			
Implications:			
Has consideration been taken of the following:	Yes	No	
Financial	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Legal	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Equality & Diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Human Rights	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Sustainability	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Risk	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
(If yes please provide further details below)			

Decision Required – Supporting Information

Financial Implications: (Must include comments of the PCC's CFO where the decision has financial implications)

The financial implications of all of the reports are covered within the separate documents. The first 3 documents for approval were discussed in detail at the Finance, Resources and Policy meeting on the 18th February 2015. The final 2 documents are predominantly updates of the policies and strategies for the areas covered to meet required standards.

Legal Implications: (Must include comments of the Monitoring Officer where the decision has legal implication)

Equality and Diversity Implications

Please see reports

Human Rights Implications

Please see reports

Sustainability Implications

These reports are part of the process to establish sustainable annual and medium term financial plans and maintain prudent financial management within both the PCC and the Police Force.

Risk Management Implications

There is a legal requirement to set a budget prior to the 1st March each year, for the following financial year, failure to do so would result in an illegal budget and significant reputational risks for the organisation.

OFFICER APPROVAL**Chief Executive**

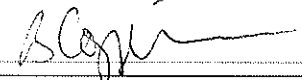
I have been consulted about the decision and confirm that financial, legal, and equalities advice has been taken into account. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner.

Signed: 

Date: 25 February 2015

Police and Crime Commissioner:

The above request HAS / ~~DOES NOT HAVE~~ my approval.

Signed: 

Date: 27/2/2015

Report of the Chief Finance Officer of the PCC to the Police and Crime Commissioner

18th February 2015

**Executive Officer: Michael Porter, CFO
Status: For Approval**

Robustness of Estimates and Adequacy of Financial Reserves

1. Purpose of the Report

1.1 The Local Government Act 2003 requires the Chief Financial Officer (CFO) of the Police and Crime Commissioner (PCC) to report formally on the robustness of the budget for consideration immediately prior to setting the Budget. This report aims to ensure that the PCC is aware of the opinion of the CFO of the PCC regarding the robustness of the budget as proposed, including the longer term revenue and capital plans, the affordability of the capital programme when determining prudential indicators and the adequacy of general balances and reserves. The PCC is required to take account of this report when determining its budget.

2. Recommendations

The PCC is asked to:

- 2.1 Note the contents of this report and take them into account when setting the 2015/16 Revenue and Capital Budgets, and when considering the Long Term Financial and Capital Plans.
- 2.2 Approve the policy on reserves as set out in Appendix A.

3. Background

- 3.1 There is a requirement for the PCC's CFO to report formally and specifically on the robustness of estimates and the adequacy of the level of reserves contained within any budget proposals being considered by the PCC.

4. Robustness of Estimates

4.1 Financial Strategy

- 4.2 The PCC has established a framework, whereby the Long Term Financial Plan (LTFP) regime seeks to provide stability and confidence in supporting the achievement of the PCC's priorities and objectives. These are set out in the Police and Crime Plan. The LTFP looks in detail at the forthcoming year and projects forward over the following three years.

4.1.1 Available Funding

The £131,820k of funding forecast to be available to the PCC in 2015-16 to support expenditure is expected from the following sources:

	Actual	Actual
	2014/15	2015/16
Funding	<u>£000s</u>	<u>£000s</u>
Government Grant	(89,756)	(85,170)
Council Tax Precept	(28,797)	(30,590)
Council Tax Freeze Grant	(800)	(800)
Council Tax Support Grant	(6,868)	(6,868)
Funding for Net Budget Requirement	(126,221)	(123,428)
Specific Grants	(5,619)	(5,640)
Witness and Victims Funding	(180)	(599)
Partnership Income/Fees and Charges	(2,233)	(2,153)
Total Funding	(134,253)	(131,820)
%age Change in Funding	-2.3%	-1.8%

- 4.1.2 Both the Government Grant and Specific Grants are based predominantly on national settlement figures with the exception of the Counter Terrorism grant which has yet to be announced. The risks to this source of funding is therefore if an in year funding cut was announced by the Government, following the General Election for instance, or if the Counter Terrorism grant is less than assumed. It has been assumed that the Counter Terrorism grant level will remain unchanged as the national budget for this area has remained at the same level as 2014-15.
- 4.1.3 In addition to these, both the Council Tax Freeze Grant and the Council Tax Support Grant are government grants which have been agreed nationally and as such there is no risk attached to the receipt of this funding.

- 4.1.4 As a precepting Authority the PCC receives a proportion of the Council Tax paid within Cleveland based on the Band levels that were proposed and agreed with the Police and Crime Panel. These receipts have generally been a very secure source of income and this shouldn't change for 2015/16. Any shortfall due to lower than expected collection rates or from reductions in the number of properties within Cleveland would not impact on the finances for 2015-16 but would have to be taken into account in 2016-17.
- 4.1.5 Over the last 10 years there have been no instances where Council Tax receipts over the 4 councils collectively have been less than forecast. Now that the changes and responsibilities for administering and collecting council tax have been embedded the changes in relation to the new council tax support scheme is unlikely to change this position.
- 4.1.6 The £2,153k of income that is factored into the 2015-16 budget for Partnership Income and Fees and Charges, is not significantly different from the 2014/15 figure. This area includes secondment income, special services income, driver training income and interest received on cash invested. While there are likely to be variances against the budgeted amounts at a specific level, the risk that the income received by the PCC in total from these and other sources being lower than budgeted is low. It is highly likely, given the experiences of the last 2 years that more income than budgeted will be received and underspends will develop. This is therefore an area that will need to be kept under review both during 2015/16 and beyond.
- 4.1.7 The total funding that the 2015/16 budget is based upon can therefore be described as very secure and the PCC can take a high level of assurance that the budget is based on robust income assumptions.
- 4.1.8 The same level of assurance cannot be given to the level of funding beyond 2015/16. There are a number of risks and issues that currently make the calculation of accurate funding forecasts difficult. Each of the key issues is set out below. The uncertainty in respect of these areas makes it difficult to provide a high degree of assurance in relation to future funding levels. It is however my opinion that the approach taken within the LTFP is in line with the best information available at this time.
- 4.1.9 Government Funding for 2016/17 and beyond
- 4.1.10 Beyond 2015-16 there is very little information about future levels of government grant settlements, especially at a level that would allow accurate grant forecasts.
- 4.1.11 It is however reasonable to assume that the reductions in government funding levels that have occurred over the last 5 years will continue into both 2016-17 and beyond.
- 4.1.12 At this stage the LTFP assumes that real reductions in government funding of 2.5% year on year over the remaining years of the LTFP.

4.1.13 On top of the 2.5% grant reduction year on year, the LTFP also assumes that the £800k of Council Tax Freeze Grants that the PCC will receive in 2015/16 will end in that year. The combined effect of which is that the LTFP effectively assumes the following reductions in Government Grant:

- 2016/17 – 3.4%
- 2017/18 – 2.5%
- 2018/19 – 2.5%

4.1.14 There is a significant risk that these assumptions may prove too low and given the significance of this risk, and the likelihood and size of the potential additional pressures that may result from future government grant settlements, any decisions around the level and use of General Reserves and decisions on Precept should be undertaken with this risk in mind.

4.1.15 Each 1% of further cuts in government funding equates to approximately £850k less funding for Cleveland on a recurring basis.

4.1.16 Precept

Despite the difficult economic situation, and the changes to the levels of Council Tax Support given to individuals, the Councils have collectively managed to collect more Council tax than they had assumed for at least the last 10 years.

4.1.17 In addition to the above the Councils within Cleveland have allowed for non-collection of Council Tax in 2015/16 that equates to around 3,500 Band D equivalent properties. This allowance for non-collection equates to over £700k for the 'Police' element within Cleveland.

4.1.18 Given the trends and the allowance for non-collection there is very little risk that the levels of precept contained within the 2015-16 budget will not be achieved.

4.1.19 Future Precept Plans

The PCC will recall that the government has set certain principles in relation to increases in Council Tax and announced that there would be a legislative requirement to hold a referendum if these principles are breached. For 2015-16 this is 2%. The LTFP assumes that the Band D precept level will increase by 1.99% per annum across the life of the plan:

4.1.20 There is a risk that a 1.99% increase in the precept in future years will not be in breach of future referendum principles.

4.1.21 To help mitigate some of the income risks within the LTFP the plan doesn't currently include any annual collection surplus and only modest underlying council tax base growth on an annual basis.

4.1.22 Expenditure Plans

Preparation of the budget, including decisions on key assumptions, while based on the most up to date information and forecasts will always have a degree of uncertainty and risk. This risk is managed by having a robust budget process and having balances and reserves that are set to take into account the financial and operational uncertainty that exists.

4.1.23 Office of the PCC Budget

The aim of the PCC over his first term is to reduce the Office of the PCC's budget from the £1,200k inherited from the Police Authority to £850k by 2016/17. If achieved this would mean the overall budget for the Office of the PCC reducing in Cash terms by £350k (29.2%) and in real terms by £446k (34.4%) over the elected term.

4.1.24 The PCC will deliver on this aim one year early with the budget to be set in 2015/16. There are limited risks to the PCC moving to a budget of £850k in 2015/16 but the PCC will need to keep in mind the additional responsibilities that continue to be placed on PCC's and these may require additional resources.

4.1.25 Commissioned Services

The 2015-16 budget sets aside just over £2.1m for PCC Initiatives and Victims and Witness Services, from which the PCC can commission services, make community safety grants, provide victims and witness services and provide funds to deliver against the Police and Crime Plan. It is likely that there will always be more demand for these funds than the total money available and therefore the challenge is which initiatives to support. As the budget is one where allocations are to be made there is no risk that it will overspend provided appropriate decisions are made but there will be times when the PCC will be unable to support initiatives due to lack of resources.

4.1.26 Corporate Services

The decision made by the PCC to change the way that Capital expenditure is financed and not to take out any additional prudential borrowing except in certain situations should enable the forecast reduction in asset management costs to be delivered. The risk to the delivery of this comes if the principles to enable this to happen are changed.

4.1.27 The forecast budgets in the remainder of this area are realistic with the PFI contracts increasing in line with contractual requirements having taken into account the savings that have been agreed over the last year. The challenge in this area is how to develop and deliver further savings from these PFI contracts so that resources can be focussed on front line services.

4.1.28 Police Force Budgets

4.1.29 There are a number of risks in the 2015/16 budget and LTFP, these are set out below:

4.1.30 Police Pay Awards and Levels of Police Officers

The LTFP assumes that Police Pay will increase by 1% in September 2015. This is in line with current government proposals to limit pay awards within the public sector to 1% and therefore the budget is built on the best information available. Given the recent proposals to Police Staff of a 2.2% pay award, over what was in effect a 2 year period, there is a risk that it may not be possible for national negotiations to contain Police Officer pay within these limits. Each 0.1% increase over the 1% budgeted within 2015/16 is expected to cost around £40k during 2015/16 and £70k per annum thereafter.

4.1.31 The LTFP assumes pay award for Police Officers will be 2% per annum thereafter. It is possible, given the current governments commitment to public sector pay constraint that 2% might be too high. If the LTFP assumed Police Pay awards remained at 1% across the life of the plan then this would reduce the Police Pay budget by approximately the following amounts:

- 2016/17 - £350k
- 2017/18 - £1,000k
- 2018/19 - £1,700k

4.1.32 In addition to pay awards changes to National Insurance rates will impact on the public sector from the 1st April 2016. The expectation is that this will add around 2% to the pay bill from this date forward and this has been reflected within the Police Pay budget from 2016/17 onwards.

4.1.33 The projected increases in the Police Pay budget over the LTFP, based on profiled Police Officer numbers, are as follows:

- 2016/17 – 4.7%
- 2017/18 – 1.9%
- 2018/19 – 0.8%

4.1.34 As with all plan assumptions further work needs to be done to ensure these increases are realistic and that the Police Pay budget is general is not too low across the plan. This review will inform future updates of the LTFP.

4.1.35 While previous versions of the LTFP have been based on a stable number of Police Officers, this being 1,351 FTEs (1,333 FTEs from the Orbis Model, plus 18 FTEs on secondment or working on National schemes), the current projections and budget from the Force are based on the follow Police Officer FTE's:

- 2015/16 – 1,327 FTEs
- 2016/17 – 1,339 FTEs
- 2017/18 – 1,337 FTEs
- 2018/19 – 1,328 FTEs

4.1.36 As the report from the Force identifies there is a significant programme of recruitment of Police Officers required over the coming years to maintain Police

Officer numbers as the levels projected in the plans. With recruitment plans at current capacity there is a risk that if leavers are higher than forecast that lower than budgeted Police Officer numbers will drive underspends in 2015/16. There should be limited risks from overspending as a result of Police Officer numbers being too high as the timing of recruitment should be managed to avoid this.

4.1.37 The Force has experienced a significant level of under spend on Police Pay during 2014/15 as a result of maternity and sickness. As a result of this the Police Pay budget for 2015/16 has been set with this in mind. There is always the risk that current levels of maternity and sickness reduce significantly during 2015/16 which would cause the Police Pay budget to over spend. This is an area that will need to be closely monitoring during 2015/16 as part of both in year budget monitoring and for future year forecasting.

4.1.38 The risk going forward in terms of Police Officer numbers is that, based on current projections, maintaining 1,333/1,351 FTE Police Officers is not sustainable financially in 2016-17 and beyond without significant, and as yet unidentified, savings being developed by the Force or significantly more funding being made available to the Force.

4.1.39 PCSO and Staff Pay Awards and FTE's

The number of staff and PCSO's factored into the financial plans are as per the table below.

	2015/16	2016/17	2017/18	2018/19
Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs
PCSOs	125	131	132	132
Police Staff - Police Force	208	195	185	183
PCC/Corporate Staff	14	14	14	14

4.1.40 The average numbers of expected PCSO's reflect the need to recruit PCSO's in certain numbers to ensure value for money and that this is aligned to Police Officer recruitment. The reductions in Police Staff numbers factored into the current plans are predominantly in relation to temporary posts.

4.1.41 A review of the assumptions around future increases in Staff and PCSO Pay, in a similar way to Police Pay, would also prove beneficial.

4.1.42 Both the PCSO and Staff budgets in 2015/16 assume that the 2.2% pay award, that has been offered to staff, covering the period to the 31st August 2016, with implementation from the 1st March 2015, is accepted.

4.1.43 Inflation

The 2015/16 budget allows for specific allocations of inflation where necessary in line with either contractual arrangements or estimates and therefore it is unlikely that any significant financial pressures will arise as a result of the assumptions made. There is the potential given forecast reductions in wholesale gas prices of 10% and the falling fuel prices that under spends might develop in year.

- 4.1.44 In terms planning assumptions, at this stage inflation has been provided on non pay budgets each year for 2016/17 onwards at a rate of 1.8%.
- 4.1.45 With current levels of inflation running much lower than historic averages, CPI was 0.5% in December 2014 whereas RPI was 1.6%, there is the potential opportunity to reduce the assumed inflationary increases factored into the LTFP. This could then reduce the levels of savings required to balance the budget. This will be reviewed going forward into 2015/16 and any changes incorporated into future plans.
- 4.1.46 Savings Requirements
The 2015/16 budget requires the delivery of £3.9m of savings, £35k from the Office of the PCC, £350k from the Corporate Budgets and PCC Initiatives budgets and £3,480k from the Police Force. This is on top of over £30m that have been delivered in the period 2011/12 to 2014/15.
- 4.1.47 The vast majority of the savings proposals for 2015/16 seem robust and there are limited risks of them not being delivered.
- 4.1.48 The area where further work is still needed in terms of 2015/16 is in relation to Contract and Procurement savings. Savings have been assumed against both the contract with Steria and the TASCOR custody contract that have yet to be formally agreed. These savings total nearly £700k in 2015/16. If these are not delivered then savings and/or service reductions will be required elsewhere to balance the budget in 2015/16.
- 4.1.49 Beyond 2015/16 further contract and procurement savings of nearly £1.5m are factored in to the 2016/17 projections (which currently doesn't balance by £1.4m). If these savings, in either 2015/16 and/or 2016/17 are not then delivered the financial plans of the organisation will be significantly more challenging that are those currently shown. This is an area of significant risk for the PCC and one that will require updates throughout 2015/16.
- 4.1.50 Despite the significant cuts that have taken place over the last 4 years the final outturn for the financial years 2010/11 to 2014/15 have been underspends of £650k, £835k, £421k and £1,974k respectively, before transfers to reserves. While these should be seen in the context of a total budget of £130-140m during this same period, the trend of under spending will continue into 2014/15 as reported throughout the current financial year, with current projections for an underspend of £3,250k.
- 4.1.51 The PCC will see from the Budget and LTFP report that based on the current funding assumptions, as set out in this report, that the budget for 2015/16 will balance providing the above savings plans are delivered. There are limited risks from these savings plans. While the financial estimates are robust the risk is that an under spend will develop during the year and the PCC must guard against this impacting on performance against the Police and Crime Plan.

Future Savings Plans and Future Budget Gaps

- 4.1.52 The current LTFFP is showing further savings of around £1.4m needed to balance 2016/17 however this is built on the assumption of the delivery of £2.7m of further savings for that year. At this stage I would estimate that firm and agreed plans are in plan to deliver £0.5m of these needed savings. With significant work required to identify and deliver the £1.5m of contract/procurement savings and £0.7m of collaboration savings that are factored into the budget in 2016/17.
- 4.1.53 This is an area that will need to be kept under review throughout 2015/16 to ensure that plans are in place to deliver these savings for the beginning of 2016/17.
- 4.1.54 Beyond 2015/16 the challenge will continue. Based on current assumptions and after the delivery of £3.9m of savings in 2015/16 and the delivery of £2.7m of savings already factored into the 2016/17 position the following additional savings will be needed to balance the budget:
- 2016/17 - £1.4m
 - 2017/18 - £3.6m (i.e. a further £2.2m if 2016/17 is balanced)
 - 2018/19 - £6.3m (i.e. a further £2.7m if 2016/17 and 2017/18 are balanced)
- 4.1.55 Based on the current assumptions and projections of both income and expenditure, aligned to the current savings plan, then there is a significant challenge for 2016/17 and beyond to enable policing and crime services in Cleveland to continue to be delivered in line with the current plans.
- 4.1.56 Capital Expenditure and Financing
The capital programme to 2018/19 is based on spending around £21m over the next 4 years on additional capital schemes however the vast majority of this is in relation to the Community Safety Hub and will be funded from the sale of Ladgate Lane. Given the decisions of the last couple of year to change the way that capital is financed, the PCC will have sufficient funding available to fund these current plans.
- 4.1.57 In previous years I have highlighted that there was a recurring and ultimately unsustainable need to borrow to fund capital given that the PCC now only receives around £1.0m of Capital Grant per annum. This has now been addressed and the financing of capital expenditure is on a more sustainable footing.

5. Adequacy of Financial Provisions, Reserves and Balances

5.1 The adequacy of financial reserves is the second requirement on which the CFO must have confidence. In reality, there is no real difference between the factors that determine both the level of reserves and the estimates themselves. Reserves are simply longer term planning mechanisms to set aside resources for a future use. As such, the section above dealing with robustness of estimates can be fully applied to arriving at a confident statement that reserves are adequate in nature i.e. the Financial Strategy and processes and procedures within the overall budget strategy all culminate in determining the level of reserves required to support the Long Term Financial Plan.

5.2 Reserves & Provisions

The PCC maintains a number of reserves, the largest and most significant of which are the General Fund, the Capital Reserve and the Insurance Fund.

5.2.1 General Fund

At the 31st March 2014, the General Fund stood at £7,031k, of this £680k was approved to be set aside as part of the 2014-15 budget to contribute towards an Earmarked Reserve for the costs of reducing the work force to the level currently factored into the plans for 2015-16. The PCC has been made aware that the 2014/15 budget is expected to underspend by around £3,250k and this will transfer into General Fund at the end of 2014/15 before being used to support the budget in future years.

Therefore prior to the 2013/14 outturn it is expected that the PCC will start 2014/15 with £6,345k in General Reserves, this is the equivalent of 4.7% of the Total Funding available to the PCC in 2014/15.

5.2.2 In addition to this the budget proposed for 2015/16 is based on £760k being added to General Reserves. This has resulted, in part, from the significant council tax collection surplus that the PCC will receive in 2015/16, in relation to the collection of council tax in 2014/15. This is non-recurring income.

5.2.3 At this stage it is therefore forecast that the PCC will have general reserves of slightly over £10m by the end of 2015/16. This is significantly higher than the 4% minimum that is recommended in the reserves policy (which would equate to £5.2m) and the 5% (or £6.5m) that I have recommended that the PCC should hold given the challenge to balance the budget in future years.

5.2.4 The PCC's attention is drawn to the fact that the current plan assumes that £1.5m per annum from General Reserves is used to support the plans of the organisation over the period 2016/17 to 2018/19 at which point General Reserves should be closer to the recommended and minimum levels.

5.2.5 The PCC's attention is also drawn to the fact that even after the planned use of general reserves that none of the budgets for the years beyond 2015/16 as of yet balance.

5.2.6 The position, in terms of the general reserve of the PCC, is that it will be on the high side in 2015/16, however based on current plans to use the reserves over the remainder of the current financial plan the level will return to adequate levels thereafter and will also provide some projection to future years' budget reductions.

5.2.7 Beyond the forecast contribution to reserves the PCC can't rely on the use of the general fund solely to balance the budget and any further use of these reserves should be focussed on delivering structural/organisation changes that will enable the budget to be balanced in future years and not in support of shorter term service delivery.

5.2.8 If budget cuts in future years are higher than currently planned then the use of the general reserve in the way that is currently planned may not be possible.

5.2.9 Capital Reserve

An earmarked Capital Reserve has been established over the last couple of year to manage the variable nature and needs of capital expenditure within the organisation and to limit the need for external borrowing. The level of the reserve will depend on the timing and deliver of the capital programme and forecast balances are shown in Appendix B.

5.2.10 Insurance Fund

The PCC maintains an Insurance Fund that covers virtually all insurable risks with a limited amount of external cover for special risk incidents and to cover accumulated losses exceeding an agreed amount depending on risk. The amount at the beginning of 2013/2014 amounted to £1,675k.

5.2.11 This level is consistent with an actuarial review of the fund that took place as at 31st March 2013 and therefore can't be reduced.

5.2.12 Further Earmarked Reserves

In addition to the Insurance Fund the PCC also has earmarked reserves that are detailed at Appendix B along with the projected movements over the LTFP period.

Usable Reserves

5.2.13 These reserves are collectively known as 'Usable' Reserves. The definition being reserves that 'can be used to fund expenditure or reduce local taxation'. As at the 31st March 2014 the Audited Statement of Accounts for the PCC showed that the organisation had Total Usable Reserves of £14.5m and based on the current plans I expect this to increase during 2015/16 before returning to a similar level in future years.

5.2.14 While £14.5m may seem like a significant amount of money I would recommend, based on the rationale contained in this report, that the PCC does not seek to reduce this significantly beyond the existing plans until there is clarity on the contract/procurement savings needed to balance the plan for 2015/16 and that future funding levels are clearer.

5.2.15 Regulation A19

The PCC will be aware that in previous years the Force has used Regulation A19 to require Police Officers to retire based on certain criteria. The use of this regulation is now subject to on-going legal challenge. There is a significant risk that if the outcome of this challenge goes against the Police service that the Force, and therefore the PCC, may have to pay out significant amounts to former Police Officers who were required to retire in line with the use of this Police Regulation. Should there be any requirement for the PCC to make any payment in this respect the the General Fund will be the first port of call this would then have a knock on effect on the use of the general fund to support the budget in future years. The PCC will be kept up to date on any developments in this area during the year.

6. Chief Finance Officer to the PCC's Statement

- 6.1 As CFO to the PCC it is my duty to specifically comment on the robustness of the estimates put forward for the PCC's consideration. For the reasons set out in this report and from my own review of the estimates process I am satisfied that the proposed spending plan for 2015/16 is sound and robust.
- 6.2 A review has been undertaken of the PCC's reserves and general balances. The PCC's general balances and reserves are an important part of the PCC's risk management strategy giving the financial flexibility to deal with unforeseen costs or liabilities. Assuming the approval of the plan set out in the budget report, I am satisfied that the PCC would have more than adequate levels of financial reserves and general balances through 2015/16.
- 6.3 In 2016/17 and beyond there is a significant amount of risk around future levels of funding and where savings can be found to deliver the current services within the reducing funding levels. As such I recommend that until this uncertainty is resolved the PCC maintains general reserves closer to 5% of the Total Funding available to them than the 4% that is set out as a minimum in the reserves policy that is attached at Appendix A.

7. Implications

Finance

- 7.1 Other than the references made above there are no specific financial or staffing implications in respect of this report.

Risk

- 7.2 There will always be an element of risk that estimates are not fully robust or accurate which may lead to unfunded budget pressures becoming apparent during the year. This report sets out the process and basis for ensuring robustness and minimising the risk of unforeseen problems. As outlined in the report the PCC should ensure that it sets aside sufficient balances to ensure that any problems and liabilities can be dealt with.

8. Conclusion

- 8.1 The PCC's budget setting process has been designed to ensure that estimates brought forward for approval are sound and robust. This report confirms that approach.
- 8.2 Similarly, the PCC's policy is to ensure that it has sufficient levels of reserves and balances to provide for known, anticipated and unforeseen costs and liabilities. I am satisfied that the proposals emerging from the 2015/16 budget process are clear, soundly based and deliverable, and that the approach to reserves and balances contained therein are appropriate.
- 8.3 In setting a budget for 2015/16 the PCC will need to continue to have regard to the underlying level of available resources. The budget report requires the PCC to take a robust approach to this issue by agreeing a long term financial plan aimed at maintaining a sustainable position through the Plan period.
- 8.4 While the financial position for 2015/16 is relatively challenging, the estimates they are based on are robust. Beyond this period there is a significant risk, given the uncertainty about future cuts in government funding beyond the current CSR period, as to whether the PCC will have sufficient funding to support the current plans of both the PCC and the Police Force. Given the £32m of savings that have been delivered during the first 5 years of 'Austerity' there is also limited scope from where additional savings can be developed.

Appendix A

Police and Crime Commissioner for Cleveland Reserves Policy

1. Reserves will only be established in accordance with legislation or codes of practice, for defined purposes and only with the approval of the Police and Crime Commissioner as advised by the PCC's CFO. When reviewing the long term financial plan and preparing the annual budget, the PCC shall consider the establishment and maintenance of reserves.
2. These 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 funds, often referred to as earmarked reserves, to meet known or predicted liabilities.
3. The PCC's general reserve will act as a safety net against the risks of:
 - a) reductions in damping grant,
 - b) in year reductions in budgeted funding
 - c) work force modernisation costs
 - d) delays in delivery of savings plans
 - e) and unforeseen circumstances such as:
 - Expenditure on major incidents that significantly exceed the budgeted provision for such incidents.
 - Levels of inflation that significantly exceed the budgeted provision.
 - Expenditure on "demand-led" lines that significantly exceed the budgeted provision.
4. The appropriate level of the general reserve will be assessed each year when the budget is set. The assessment will have regard to the circumstances and budget for that year, to prospects for future years' budgets, and to any Home Office policy on special grant. The minimum level of the general reserve shall be 4% of the Total Funding available to the PCC.
5. The application of the general reserve will require the specific approval of the PCC as advised by the PCC's CFO. In the normal course of events decisions will be made on the principle that a one-off contribution from the general reserve should be made to support one-off and not continuing expenditure.
6. The position on the general reserve will be monitored in-year by the PCCs CFO as part of the budgetary control process, and proposals brought to deal with any significant adverse movements compared with the budgeted position. The presumption will be that any net underspending on the revenue budget shall flow to the general reserve unless there is an in year decision to utilise this to address performance matters.

APPENDIX B

Forecast Earmarked Reserves

	Balance at 31 March 2014 £000	Transfers In 2014/15 £000	Transfers Out 2014/15 £000	Balance at 31 March 2015 £000	Transfers In 2015/16 £000	Transfers Out 2015/16 £000	Balance at 31 March 2016 £000	Transfers In 2016/17 £000	Transfers Out 2016/17 £000	Balance at 31 March 2017 £000	Transfers In 2017/18 £000	Transfers Out 2017/18 £000	Balance at 31 March 2018 £000
Insurance Fund	(1,675)			(1,675)			(1,675)			(1,675)			(1,675)
Direct Revenue Funding of Capital	(2,386)	(825)	2,200	(1,011)	(1,850)	207	(2,654)	1,917		(737)	(254)		(991)
Injury Pension Reserve	(1,200)			(1,200)		480	(720)		480	(240)		240	0
PFI Sinking Fund	(215)	(40)		(255)	(40)		(295)	(40)		(335)	(40)		(375)
Incentivisation Grant	(307)	(180)	200	(287)	(180)	200	(267)	(180)	200	(247)	(180)	200	(227)
Neighbourhood Policing	(16)			(16)			(16)			(16)			(16)
Specials	(62)			(62)			(62)			(62)			(62)
Urlay Nook TTC	(48)			(48)			(48)			(48)			(48)
Development Fund	(12)			(12)			(12)			(12)			(12)
Invest to Save	(83)			(83)			(83)			(83)			(83)
Devolved Budget Carry Forwards	(8)			(8)			(8)			(8)			(8)
Estates Reserve	(288)			(288)		288	0			0			0
Job Evaluation Reserve	(292)			(292)		292	0			0			0
Police Property Act Fund	(27)		27	(0)			(0)			(0)			(0)
ER/VR/CR Reserve	0	(875)		(875)		875	0			0			0
Innovation Fund	(105)			(105)			(105)			(105)			(105)
Victims and Witnesses	(75)			(75)			(75)			(75)			(75)
Safety Camera Reserve	(146)	(240)	362	(24)			(24)			(24)			(24)
Revenue Grants Unapplied	(241)			(241)			(241)			(241)			(241)
Total	(7,184)	(2,160)	2,789	(6,555)	(2,070)	2,342	(6,283)	1,697	680	(3,906)	(474)	440	(3,940)

NOT PROTECTIVELY MARKED

Report of the Chief Finance Officer of the PCC to the Police and Crime Commissioner for Cleveland

18th February 2015

Status: For Approval

Budget 2015/16 and Long Term Financial Plan 2016/17 to 2018/19 and Capital Plans 2015/16 to 2018/19

1. Executive Summary

1.1 Purpose of the Report

This report asks the PCC to agree the Budget proposals for 2015/16 and the Long Term Financial Plan (LTFP) for 2015/16 – 2018/19 in line with the legal requirement to set a budget prior to the 1st March each year for the following financial year. It also asks the PCC to agree the funding for the Capital Programme for 2015/16 and the indicative allocations for the period 2016/17 to 2018/19.

2. Recommendations

2.1 The PCC is requested to approve the allocation of the £131,820k of revenue funding, that is forecast to be received by the PCC in 2014/15, in the following areas:

- £850k to run the Office of the PCC (see Appendix A)
- £8,990k for Corporate Costs
- £2,125k to support PCC Initiatives and Victims and Witnesses Services
- £117,205k to the Police Force
- £1,850k to the Capital Programme
- £760k to General Reserves

- 2.2 The PCC is asked to note that the 2015/16 budget is based on the approved 1.99% increase in precept for 2015/16.
- 2.3 The PCC is asked to take cognisance of the Robustness of Estimates and Adequacy of Financial Reserves Report of the PCCs CFO that was discussed prior to this report.
- 2.4 The PCC is asked to agree that quarterly updates to the LTFP forecast will be brought to the PCC in 2015/16 to provide an update on the progress of the work to develop the future saving plans required.
- 2.5 The PCC is asked to agree that quarterly updates on the 2015/16 budget will be brought to the PCC in 2015/16.
- 2.6 The PCC is asked to approve borrowing of up to £3,760k can be taken out to fund the capital expenditure in 2015/16.
- 2.7 The PCC is asked to allocate £1,534k of Capital Budgets to the Chief Constable to deliver new schemes on behalf of the PCC.
- 2.8 The PCC is asked to note that the Capital Plans allow for the financing and costs of the Community Safety Hub however neither the funding nor the expenditure budgets included within the plans for 2015/16 and beyond can be accessed without further approval from the PCC.

3. Planning and Funding Assumptions

3.1 The 2010 Comprehensive Spending Review (CSR) was issued in October 2010 with further detail being released in December 2010 which gave detail around funding for the five years from 2011/12 to 2015/16. This was then further informed by the 2013 Spending Review and the subsequent one year settlements that have since followed.

3.2 Grant

The Government Grant for Cleveland has so far seen the following CASH reductions:

- 2011/12 – £5.3m reduction (5.1%)
- 2012/13 – £6.5m reduction (6.7%)
- 2013/14 – £1.5m reduction (1.6%)
- 2014/15 - £4.5m reduction (4.8%)
- 2015/16 - £4.6m reduction (5.1%)

3.3 Over the 5 years detailed above the Main Government Grant(s) received for policing in Cleveland have reduced by £22.4m in total. In addition to this other government grants have been reduced by £1.4m which brings the total cash reduction in Government Funding for Cleveland, over the 5 year period, to £23.8m. **In real terms, given the effects of inflation this equates to around a £35m reduction in spending power on the Police Service within Cleveland over just 5 years.**

3.4 This reduction over 5 years equates to a 22% cash reduction in funding from the government which in real terms equates to a 32% reduction.

3.5 Government Funding for 2015/16

At the time of the 2013 Spending Round PCC's were expecting cuts of 3.2% in 2015-16 in cash terms. In the 2013 Budget the Chancellor announced a further 1.1% cut to the Home Office Departmental Expenditure Limit in 2015/16. The Home Office were considering whether they would be able to absorb that cut within the department rather than pass the cut on to PCC's and as a result of this PCC's did not receive a provisional 2015/16 settlement in 2014/15.

3.6 The Home Office have passed on some of the 1.1% Department Expenditure Limit cut but not all of it to PCC's and as such the draft grant settlement that was announced on the 17th December 2014 was a 3.4%, or £289m, reduction in Police Revenue funding from the Home Office. However due to a number of top slices the cash cuts received by each PCC totalled a significantly higher reduction of 5.1%

3.7 Full details of the allocation of the Home Office Revenue Policing budget is detailed below:

Police Revenue Funding	2014/15 £m	2015/16 £m	Change %
Funding to PCCs			
Home Office Police Grant	4,583.3	4,309.2	-6.0%
Formula Funding (ex-DCLG)	2,923.5	2,818.3	-3.6%
Welsh Government	140.0	135.0	-3.6%
Welsh Top-Up	13.1	12.5	-4.7%
Counter-Terrorism Specific Grant	564.0	564.0	-
Council Tax Freezes for London	23.6	30.4	28.9%
2011/12 Council Tax Freeze	58.8	58.8	-
2013/14 Council Tax Freeze	7.3	7.3	-
2014/15 Council Tax Freeze*	2.7	2.7	-
Sub-Total	8,313.7	7,938.3	-4.5%
Other Funding			
National Police Coordination Centre	2.3	-	-
PFI	72.8	72.8	-
Ordnance Survey	1.7	1.7	-
Contingency	5.9	-	-
IPCC	18.0	30.0	66.7%
Innovation Fund	50.0	70.0	40.0%
College of Policing	2.8	4.6	64.3%
City of London	2.5	2.8	14.3%
HMIC	9.4	9.4	-
Police Knowledge Fund	-	5.0	-
Major Programmes	-	40.0	-
Police Special Grant	-	15.0	-
Sub-Total	165.4	251.4	52.0%
Total Government Funding	8,479.1	8,189.6	-3.4%

3.8 In total around £180m has been 'top sliced' from the funding that could have been provided to PCC's. The £72.8m included for PFI's in the other funding section in the table above is technically not a 'top slice' however the other £178.3m are 'top slices'.

3.9 If the £178.3m had been allocated directly to PCC's, instead of being top sliced, then Cleveland would have received £2.1m more funding in 2015/16 than will now be the case. This additional funding would have been sufficient to fund around 60-70 extra PCSOs.

3.10 Government Funding for 2016/17 and beyond

There is currently no clear indication of what will happen to the levels of Government Funding for 2016/17 and beyond. It is also unlikely that any clear indications will be given before the next General Election which will be held on the 7th May 2015. What is however reasonable to assume is that reductions in government funding will not end in 2015/16. It is therefore prudent to plan for further cuts.

3.11 As can be seen with the final settlement for 2015/16 it is however very difficult to project what the level of reductions will be. For planning purposes it has therefore been assumed that Government Grants will reduce by 2.5% per annum across the life of the LTFP.

3.12 The current forecasts for Government Funding across the next 4 years, in comparison to the amount for 2014/15, are therefore:

	Actual	Forecasts			
	2014/15	2015/16	2016/17	2017/18	2018/19
Funding	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Police Grant	(49,443)	(46,417)	(45,257)	(44,125)	(43,022)
RSG/National Non Domestic Rate	(40,313)	(38,753)	(37,784)	(36,839)	(35,918)
Government Grant Funding	(89,756)	(85,170)	(83,041)	(80,965)	(78,941)

3.13 Precept

There are now 3 elements that make up what would have previously been the amount of funding received in relation to precept.

3.14 There continues to be the amount raised locally via the 'police' element of the Council Tax bill. However this has been reduced significantly given the government decision to localise the council tax benefits system.

3.15 **The assumption throughout this updated plan, and for planning purposes only, is that this element will increase by 1.99% per annum.**

3.16 The level of precept for 2015/16 was subject to a separate decision by the PCC. The proposed 1.99% increase was supported by the Police and Crime Panel on the 3rd February and has subsequently been issued as the precept for 2015/16 and is included in this final 2015/16 budget and the LTFP.

- 3.17 Between the November 2014 update of the LTFP and the issuing of the precept for 2015/16 the PCC received notification from the councils within Cleveland of the Council Tax Base for 2015/16 and how much of the Council Tax Collection Surplus is due to the PCC. The impact of this is set out in the table below:

Precept Assumptions as per November 2014	Forecasts			
	2015/16	2016/17	2017/18	2018/19
Funding	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Precept (Assumed 1.99% increase p.a.) - Nov 2014 position	(28,799)	(29,450)	(30,110)	(30,780)
Growth in Band D Assumptions	(81)	(80)	(80)	(80)
Total	(28,880)	(29,530)	(30,190)	(30,860)

1.99% Precept Increase in 2015/16	Forecasts			
	2015/16	2016/17	2017/18	2018/19
Funding	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Precept increase of 1.99% p.a.	(28,799)	(30,019)	(30,757)	(31,453)
Collection Surplus	(1,157)			
Growth in Band D Assumptions	(635)	(139)	(82)	(84)
Total	(30,590)	(30,158)	(30,839)	(31,537)

Additional Funding in comparison to November 2014 Financial Plan	(1,710)	(628)	(649)	(677)
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- 3.18 There has been significant growth in the underlying Council Tax base of 3,078 Band D equivalent properties which has increased the amount to be received from Council Tax, permanently, by £635k. In addition to this the Councils have reported 'Collection Surplus' due to the PCC of £1,157k this is a non-recurring amount.
- 3.19 As a result of this the PCC has over £1.7m more 'precept' funding available in 2015/16 than forecast as at November 2014 and the underlying growth in Tax Base means a recurring benefit to the PCC for over £600k per annum.
- 3.20 As a precepting authority the PCC will receive a grant of £6,868k in 2015/16 in recognition that a proportion of Council Tax Benefits that were previously paid by the Government to the Local Councils were ultimately due to the PCC as part of the 'police' precept.
- 3.21 Despite a small increase in this grant in 2014/15 of £18k (or 0.3%) the 2015/16 grant has remained at the same level as that paid in 2014/15. The current plan therefore assumes that the current level of grant remains unchanged throughout the plan.
- 3.22 There remains a risk that this element of funding to the PCC becomes part of the overall Police Grant and therefore subject to reductions in future years and/or gets allocated by the formula that distributes funding within policing as a whole instead of based on local need.

3.31 A summary of the entire funding expected to be available to the PCC in 2015/16 and projections for the next 3 years, in comparison to 2014/15 in shown below:

	Actual	Forecasts			
	2014/15	2015/16	2016/17	2017/18	2018/19
Funding	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Government Grant	(89,756)	(85,170)	(83,041)	(80,965)	(78,941)
Council Tax Precept	(28,238)	(30,590)	(30,158)	(30,839)	(31,537)
Council Tax Freeze Grant	(800)	(800)	0	0	0
Council Tax Support Grant	(6,868)	(6,868)	(6,868)	(6,868)	(6,868)
Funding for Net Budget Requirement	(125,662)	(123,428)	(120,066)	(118,672)	(117,346)
Specific Grants	(5,619)	(5,640)	(5,640)	(5,640)	(5,640)
Witness and Victims Funding	(180)	(599)	(599)	(599)	(599)
Partnership Income/Fees and Charges	(2,233)	(2,153)	(2,230)	(2,549)	(2,730)
Total Funding	(133,694)	(131,820)	(128,535)	(127,460)	(126,315)
%age change in Total Funding	-2.7%	-1.4%	-2.5%	-0.8%	-0.9%

3.32 The above funding levels should be seen in the context that in 2010/11 £147.3m was provided to the former Police Authority to deliver 'just' Policing.

- 3.23 The final area of 'precept' funding is in the form of the Council Tax Freeze grant. The PCC is currently in receipt of one grant as a result of a decision to freeze precept in 2011/12. The grant has been confirmed for 2015/16 at the same level as received in 2014/15.
- 3.24 The grant of £800k per annum is as a result of the decision of the then Police Authority to freeze council tax levels in 2011/12. Originally this grant, for £800k per annum, was for 4 years but it has been extended into a 5th year. Based on current information this grant will not be available for the 2016/17 financial year.
- 3.25 The current forecasts around the funding for precept and precept related items over the next 4 years, in comparison to 2014/15, are as follows:

	Actual	Actual	Forecasts		
	2014/15	2015/16	2016/17	2017/18	2018/19
Funding	£000s	£000s	£000s	£000s	£000s
Precept (Assumed 2.0% increase p.a.)	(28,238)	(30,590)	(30,158)	(30,839)	(31,537)
2011/12 Council Tax Freeze Grant	(800)	(800)	0	0	0
Council Tax Support Grant	(6,868)	(6,868)	(6,868)	(6,868)	(6,868)
Government Grant Funding	(35,906)	(38,258)	(37,026)	(37,707)	(38,405)

- 3.26 Specific Grants, Other Income and Community Safety Grant
While the main government grant and money related to precept provide the PCC with the majority of its funding there are other areas from which the PCC will receive income.
- 3.27 In terms of Specific Grants the PCC is forecast to receive £5,640k per annum for the life of this plan. They are called specific grants as there is a requirement to spend them on the areas for which they are granted for. The vast majority of this funding, £4,110k relates to grants that support our PFI schemes.
- 3.28 Other funding is generated from a variety of sources such as secondments, interest on balances held and invested, collaboration contributions, special services income and speed awareness income.
- 3.29 These sources of income and funding are forecast to provide between £2.2m and £2.7m across the life of the plan.
- 3.30 For the first time in 2015/16 the PCC will receive a full years allocation of funding to commission Victims and Witnesses Services and also contribute towards restorative justice initiatives. The exact funding for this area has not been formally confirmed but previous indications are that funding will be around £600k per annum.

4.7 PCC Initiatives and Victims and Witnesses Services

The PCC has increasing responsibilities beyond those of policing. This has been evidenced by the receipt firstly of a 'Community Safety' Grant in 2013/14, and in 2014/15 and beyond with Victims and Witnesses funding.

4.8 Significant work has been undertaken in this area and will continue to be undertaken to deliver in this new area. Initial awards and allocations for these funding areas have been made in line with the tables below:

	Forecasts
	2015/16
PCC Initiatives	<u>£000s</u>
Arrest Referral	200
Youth Offending	200
ASB Youth Activities	120
Domestic Violence	120
Integrated Offender Management Hub	117
Adult Protection Contribution	28
Local Safeguarding Childrens Board Contribution	57
Cadets Contribution	36
Retail Crime Contribution	7
Crimestoppers Contribution	19
Criminal Justice Board Contribution	25
Domestic Violence	39
Contribution to Balance	20
Safer Future Communities	10
Unallocated	410
Total PCC Initiatives and Community Safety	1,410

4.9 In addition to the allocation of £1,410k to PCC Initiatives and Community Safety set out above the PCC will also be supporting Victims and Witnesses services with funding of £715k. Those allocation to date are set out below:

Victims and Witnesses	<u>£000s</u>
My Sister's Place	42
Joint Visits	6
Women's Support Network	37
SARC	113
Barnado's	60
Victims Strategic Planning Group	10
MASH	26
Restorative Justice - Co-ordinator	32
Restorative Justice Services	95
Victims Referral Services	280
Unallocated	14
Total Victims and Witnesses	715

4.10 Both areas of expenditure will be developed and further details and allocations will be made in the coming months, and throughout the 2015/16 financial year, as appropriate.

4. Expenditure Plans

4.1 Office of the PCC

The first budget for the Office of the PCC was set at £930k to run the office, deliver the statutory functions of the office and aid the PCC in delivering their role and priorities.

4.2 This budget was £270k lower than the 2012/13 budget of the previous Police Authority, a reduction of over 22% in cash terms, which enabled this £270k to be spent supporting and delivering front line services.

4.3 The aim over the remainder of the first term of the PCC is to reduce the Office of the PCC's budget to £850k by 2016/17. This has now been achieved a year ahead of schedule and this means the overall budget for the Office of the PCC has reduced in Cash terms by £350k (29.2%) and in real terms by £446k (34.4%) over the PCC's term so far.

4.4 This compares to a forecast real term reduction in the overall total funding available to the PCC of 12% over the same period (i.e. 2012/13 to 2016/17)

4.5 With this in mind the PCC has identified further savings of £35k and absorbed inflationary increase in setting his budget for 2015-16. This is a further reduction of 4.0% over the 2014-15 budgets and is more than double the reduction in overall funding available to the PCC in 2015-16 in comparison to 2014-15.

4.6 Further details are provided at Appendix A.

4.11 Corporate Budgets

As part of this transition and the changes to governance that occurred from the 1st April 2014 there were certain budgets and responsibilities that remained with the PCC. These areas have been grouped under the heading of Corporate Budgets and include the costs of the PFI contracts, strategic contract management, asset management costs, treasury management and planning.

4.12 The areas of expenditure incorporated in this area and the forecasts for the life of the plan are included in the table below:

	Actual	Forecasts			
	2014/15	2015/16	2016/17	2017/18	2018/19
Corporate Services	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Staff Pay	180	195	200	205	210
Non Pay Expenditure	60	40	30	20	20
PFI Action Stations	5,110	5,070	5,145	5,215	5,285
PFI Urlay Nook	1,710	1,735	1,780	1,825	1,870
Asset Management	2,100	1,950	1,910	1,850	1,850
Total Corporate Costs	9,160	8,990	9,065	9,115	9,235
%age Change in Expenditure	-2.4%	-1.9%	0.8%	0.5%	1.3%

4.13 The 4.5 FTE staff that are included within this area were previously under the 'direction and control' of the Chief Constable.

4.14 On top of absorbing significant levels of contract inflation the total budgets in this area have been reduced by £170k in 2015/16, this is on top of a £230k reduction in 2014/15. During both of these years this area has, despite very little scope for savings, reduced the budget by slightly more than the overall reduction in funding available to the PCC therefore ensuring that these 'Corporate Services' are delivering the efficiencies needed to help balance the budget and support front line services.

4.15 Police Force

The vast majority of the funding available to the PCC is being provided to the Police Force. They have asked for and been allocated a budget of £117,205k for 2015/16. This is £1.2m less than the budget that the PCC indicated was available to the Force in February 2014.

4.16 The summary of how this is forecast to be spent in 2015/16, in comparison to the 2014/15 budget and the forecasts for the next 3 years are as per the table below:

	Actual	Actual	Forecasts		
	2014/15	2015/16	2016/17	2017/18	2018/19
Police Force Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Pay					
Police Pay	71,912	68,715	72,290	73,610	73,530
Police Community Support Officer Pay	4,416	3,770	4,075	4,170	4,420
Staff Pay	6,441	6,740	6,720	6,700	6,805
Pay Total	82,769	79,225	83,085	84,480	84,755
Major Contracts Total	22,426	22,095	20,970	21,280	21,595
Non-Pay Budgets					
Other Pay and Training	276	320	320	320	320
Injury and Medical Police Pensions	2,360	1,993	2,013	2,013	2,013
Premises	3,811	3,544	3,510	3,065	3,003
Supplies and Services	5,645	5,605	5,914	6,409	6,721
Transport	1,762	1,718	1,718	1,718	1,718
External Support	2,356	2,704	1,974	1,474	1,474
Non-Pay Total	16,210	15,885	15,450	15,000	15,250
Total Planned Force Expenditure	121,405	117,205	119,505	120,760	121,600
%age Change in Expenditure	-2.4%	-3.5%	2.0%	1.1%	0.7%
Expected Funds available from PCC	121,405	117,205	118,105	117,160	115,300
Unidentified Savings	0	0	(1,400)	(3,600)	(6,300)
Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,378	1,327	1,339	1,337	1,328
PCSOs	145	125	131	132	132
Police Staff - Police Force	184	208	195	185	183

- 4.17 In being able to achieve an expenditure plan of £117.2m for 2015/16 the Force have identified circa £3.5m of savings that have been removed from the budget. Further details of these savings are included at Appendix B.
- 4.18 In addition to these savings the Force expect to be below the Orbis Operating Model, with 22 FTE less Police Officers in 2015/16 reducing the budget by around £1.1m, 7 FTE less PCSOs reducing the budget by £0.2m and 42 FTEs over on Police Staff which increases the budget by around £1.3m.
- 4.19 Further details of the financial plans of the Force will be contained within a separate report from the Chief Constable, whilst an overview of the estimates and risks included within the whole financial plan, including the Force budget, is included within the Robustness or Estimates and Adequacy of Reserves report.
- 4.20 Reserves
A full review of the adequacy of reserves has been provided in the Robustness of Estimates and Adequacy of Reserves report that was considered earlier.

5. Budget Summary

5.1 Based on the assumptions outlined within this report the summary position, over the next 4 years, would be as illustrated in the table below:

	Budgets				
	Actual	Actual	Forecasts		
	2014/15	2015/16	2016/17	2017/18	2018/19
Funding	£000s	£000s	£000s	£000s	£000s
Total Funding	(134,253)	(131,820)	(128,535)	(127,460)	(126,315)
%age Change in Funding	-2.3%	-1.8%	-2.5%	-0.8%	-0.9%
Office of the PCC Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Total Planned Expenditure	885	850	830	825	820
%age Change in Expenditure	-4.8%	-4.0%	-2.3%	-0.6%	-0.5%
Community Safety/Victims and Witness	£000s	£000s	£000s	£000s	£000s
Total Planned Expenditure	1,768	2,125	1,915	1,915	1,915
Corporate Services	£000s	£000s	£000s	£000s	£000s
Total Corporate Costs	9,160	8,990	9,065	9,115	9,235
Police Force Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Pay					
Police Pay and Overtime	71,912	68,715	72,290	73,610	73,530
Police Community Support Officer Pay	4,416	3,770	4,075	4,170	4,420
Staff Pay	6,441	6,740	6,720	6,700	6,805
Pay Total	82,769	79,225	83,085	84,480	84,755
Major Contracts Total	22,426	22,095	20,970	21,280	21,595
Non-Pay Total	16,210	15,885	15,450	15,000	15,250
Total Planned Force Expenditure	121,405	117,205	119,505	120,760	121,600
%age Change in Expenditure	-2.4%	-3.5%	2.0%	1.1%	0.7%
(Surplus)/Deficit	£000s	£000s	£000s	£000s	£000s
(1,035)	(2,650)	2,780	5,155	7,255	
Planned Transfers to/(from) General Fund	(680)	760	(1,500)	(1,500)	(1,500)
Contribution to Capital Programme	800	1,850	0	0	0
Planned Transfers to Earmarked Reserves	915	40	40	40	40
Net (Surplus)/Deficit After Reserves	0	0	1,320	3,695	5,795
General Reserves	£000s	£000s	£000s	£000s	£000s
General Fund Balance b/f	7,025	6,351	10,361	8,861	7,361
General Fund Movements	(680)	760	(1,500)	(1,500)	(1,500)
Underspend	6	3,250			
General Fund Balance c/f	6,351	10,361	8,861	7,361	5,861
Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,378	1,327	1,339	1,337	1,328
PCSOs	145	125	131	132	132
Police Staff - Police Force	184	208	195	185	183
PCC/Corporate Staff	15	14	14	14	14
Assumptions					
Staff Pay Increases	2.2%	0.0%	2.0%	2.0%	2.0%
Police Pay Increases	1.0%	1.0%	2.0%	2.0%	2.0%
Precept Increases	2.0%	2.0%	2.0%	2.0%	2.0%
Government Grant Reductions (Cash Basis)	-4.8%	-5.1%	-2.5%	-2.5%	-2.5%

- 5.2 The above forecast is based on the best information and forecasts available at the time of pulling together the 2015/16 budget and LTFFP.
- 5.3 As mentioned earlier, the delivery of a balanced budget for 2014/15 will require £3.5m of savings that have been removed from the Forces' budget to be delivered. At this stage a further £2.4m of savings has been factored into the position for 2016/17. While the savings from the revised staffing structures have in effect been delivered within the Force it is important that those that are as a result of either contract changes or estates changes, for instance, are implemented as soon as possible. A summary of these savings are shown at Appendix B.
- 5.4 While significant progress has been made in reducing the gap for 2016/17 and the use of reserves across the next 3 years provides some time to deliver all of the savings needed there is still a need to deliver not only the savings factored into the current projections but also additional savings to balance the budget in 2016/17 and beyond. With this in mind the PCC is asked to consider the Robustness of Estimates report when considering the projected financial plans.

6. Capital Financing and Expenditure

6.1 The assets owned by the PCC are a vital platform for the delivery of the Police and Crime Plan, with the overall purpose of the capital plan to provide sufficient funding to renew the asset base of the organisation, informed by condition deficiency surveys, 'fit for purpose' reviews, equipment replacement programmes, business continuity requirements and invest to save expenditure. The Chief Constable has drawn up recommended areas for capital investment which would aid the Police Force in delivering against the Police and Crime Plan. Should the PCC approve the plans then the Chief Constable will deliver these schemes on behalf of the PCC and the assets will be available to use by the Chief Constable.

6.2 **Capital Grant**

The PCC is expected to receive £1,003k in terms of Capital Grant in 2015/16, this is £222k, or 18%, lower than in 2014/15, as a result of a £20m Home Office top slice to fund the Communications Capabilities Development Programme and the Emergency Services Mobile Communications Programme. If the PCC wants, or needs, to spend more on Capital Expenditure than this Grant provides then the options are as follows:

- Borrowing money (either through loans or from current cash balances) to fund Capital Purchases.
- The sale of Capital Assets resulting in a Capital Receipt.
- A contribution from the Revenue Budget

6.3 With the above in mind, and the PCC's desire to reduce how much of the revenue funding available to the PCC is currently being set aside for capital financing and interest payments, the PCC approved changes in 2014/15 that are reducing these budgets.

6.4 While a number of these changes were one-off changes there were 3 recurring changes which were:

- To change the policy on the sale of capital assets so that, from the 1st April 2014, all proceeds from the sale of capital items, and not just those greater than £10k, are accounted for as capital receipts and therefore available to fund capital purchases in the future.
- To contribute £200k of the recurring savings on the MRP budget, as a result of these changes to capital financing to the capital programme on a recurring basis.
- To contribute £250k from the larger than expected increase in the number of Band D properties in 2014-15 is added to capital funding and that this becomes a permanent contribution that increases in line with future precept increases.

6.5 The first of these changes is a policy change and will continue going forward. The following 2 changes would have seen the following contributions from Revenue to the Capital Programme over the LTFP covered within this update:

- 2015/16 - £455k
- 2016/17 - £460k
- 2017/18 - £465k
- 2018/19 - £470k

6.6 As a result of the significant and unexpected non-recurring council tax collection surplus in 2014/15, of £1,157k, which will be received in 2015/16, and further underlying tax base growth, it is recommended that the total amount that was planned to be contributed to Capital over the 4 year period, of £1,850k, is set aside in 2015/16. This should help in balancing the financial plan in future years.

6.7 As a result of these changes the PCC has sufficient funds available to support the current plans of the Police Force over the next 4 years and may have the capacity to either invest further or reduce the level of supported capital borrowing that is used in future years. The table below sets out the forecast position for Capital for the next 4 years based on current projections and forecasts.

Future Funding Levels	2014/15	2015/16	2016/17	2017/18	2018/19
	£000s	£000s	£000s	£000s	£000s
Earmarked Reserve/Funding b/f	2,663	1,011	2,654	737	991
Capital Grant	1,225	1,003	1,000	1,000	1,000
Contribution from Revenue	825	1,850	0	0	0
Capital Receipts (from Vehicle sales)	100	100	100	100	100
Capital Receipts (from Property sales)		2,964	2,964	2,964	2,964
New Prudential Borrowing		3,000	4,000	-3,000	-4,000
Supported Capital Borrowing	760	760	760	760	760
Projected In-year funding Available	2,910	9,677	8,824	1,824	824
Carry Forwards from 2013/14	2,920				
Review of 2014/15 Budgets	-1,042				
Increased Budget for CSH	542				
Expected Spend on CSH		6,500	9,403		
Police Force New Capital Schemes	2,142	1,534	1,338	1,570	902
Total Capital Programme	4,562	8,034	10,741	1,570	902
Earmarked Capital Reserve/Funding c/f	1,011	2,654	737	991	913

6.8 Further details of the New Capital Schemes proposed by the Force are detailed in a report from the Chief Constable.

6.9 As a result of the proposed changes to the funding of Capital Expenditure the capital financing charges expected for the proposed plans are as follows:

Capital Financing	2013/14	2014/15	2015/16	2016/17	2017/18
	£000s	£000s	£000s	£000s	£000s
Interest Payable	961	852	794	749	686
Minimum Revenue Provision	1,372	1,198	1,106	1,107	1,111
Total Capital Financing Costs	2,333	2,050	1,900	1,855	1,797

6.10 As can be seen from the above table over £500k will be removed from these budgets since the changes to the process for capital financing has been made.

6.11 The CIPFA Prudential Code of Practice is a key element in the system of capital finance. Under this system individual PCC's are responsible for deciding the level of their affordable borrowing having regard to the prudential code. The associated paper 'Treasury Management & Prudential Indicators 2015/19' will provide the PCC with reasonable assurance that the proposed Capital Plan and its financing are within prudential limits.

7. Implications

7.1 Finance

There are no financial implications other than those mentioned above.

7.2 Diversity & Equal Opportunities

There are no issues arising from this report to bring to the attention of the PCC.

7.3 Human Rights Act

There are no Human Rights Act implications arising from this report.

7.4 Sustainability

This report is part of the process to establish sustainable annual and medium term financial plans and maintain prudent financial management.

7.5 Risk

If the savings factored into the balanced budget for 2015/16 are not achieved then this could impact on the focus on front line policing and performance improvement.

Areas of risk associated with the plan presented here are covered in detail in the "Robustness of Estimates" which was discussed with the PCC prior to this report.

Risk will need to form a key part of the regular monthly monitoring of budget reports throughout 2015/16 and will be reported to the PCC on a quarterly basis

8. Conclusion

8.1 The proposed 2015/16 revenue and capital budgets underpin the PCC's financial objectives of:

- Retain and develop Neighbourhood Policing
- Ensure a better deal for victims and witnesses
- Divert people from offending, with a focus on rehabilitation and the prevention of reoffending
- Develop better coordination, communication and partnership between agencies to make the best use of resources
- Working for better industrial and community relations

Michael Porter
PCC Chief Finance Officer

Office of the PCC Budget 2015/16

2012/13 Budget	2013/14 Budget	Police Authority/PCC Budget	2014/15 Budget	Movement to 2015/16 Budget	2015/16 Budget
£	£	Category of Spend	£	£	£
549,282	590,000	Staff Pay and Allowances	585,000	0	585,000
200	5,300	Other Pay and Training	5,300	0	5,300
1,000	1,000	Premises	1,000	0	1,000
643,297	326,700	Supplies and Services	286,700	1,000	287,700
7,000	7,000	Transport	7,000	4,000	11,000
0	0	Miscellaneous Income	0	(40,000)	(40,000)
1,200,779	930,000	Total Budget	885,000	(35,000)	850,000
		Reduction on Previous Year			4.0%
		Reduction since PCC took Office			29.2%
		Cumulative Reduction over CSR Period			35.8%

The PCC has been able to make cash savings of £35k in setting the budget for 2014/15. This equates to 4.0% which is more than double the 1.8% reduction in the overall funding available to the PCC in 2015/16 in comparison to 2014/15. In line with all years of the PCCs term in office priority is being given to provide funding to frontline services.

The PCC has now made recurring cash savings of £350k during his 3 years in office, this is a reduction in his budget of 29.2% in cash terms. This is the equivalent of the funding to maintain around 11 PCSOs.

APPENDIX B

PCC Savings Summary for 2015/16 and 2016/17	2015-16	2016-17	Savings over the 2 years
	£k	£k	£k
Savings Summary PCC and Corporate Costs			
Office of PCC	35	20	55
<u>Corporate Costs</u>			
Minimum Revenue Provision	90		90
Interest Payable	60	40	100
Contracts	100		100
	250	40	290
PCC Initiatives	100	210	310
Total PCC and Corporate Savings	385	270	655
Savings Summary - Police Force			
<u>Police Pay</u>			
Implementation of Revised Operating Model	1,450		1,450
National Changes to Police Officer Terms	340		340
	1,790	0	1,790
<u>PCSO's Pay</u>			
Implementation of Revised Operating Model	390		390
	390	0	390
<u>Non-Pay Savings</u>			
Contract and Procurement Savings	855	1,450	2,305
Estates Rationalisation	270	50	320
Other non-pay savings	50	150	200
Collaboration	125	730	855
	1,300	2,380	3,680
Police Force Overall Savings	3,480	2,380	5,860
Total Savings	3,865	2,650	6,515

Report to the
Police & Crime Commissioner

18 February 2015



Final (Revised)

Cleveland Police Long Term Financial Plan (LTFP) 2015/16 to 2018/19

Status: For approval

Purpose of the Report

The purpose of the Long Term Financial Plan (LTFP) is to demonstrate that the Force's operational plan is affordable and that financial stability can be maintained. Accordingly, this report sets out the revenue and capital spending plans that underpin delivery of Force priorities for the period 2015/16 to 2018/19.

A key concern for the Force is the development of a sustainable service model that can effectively respond to threat, harm and risk and bring about safer communities in the face of the continued funding cuts.

This report sets out progress to date, next steps and challenges ahead.

It should be read in conjunction with the following reports prepared by the Police & Crime Commissioner's (PCC) Chief Financial Officer:

- Budget 2015/16 and Long Term Financial Plan 2016/17 to 2018/19 and Capital Plans 2015/16 to 2018/19
- Robustness of Estimates and Adequacy of Financial Reserves

Recommendation

The Police & Crime Commissioner (PCC) is requested to approve the revenue and capital budget proposal for 2015/16 and the Long Term Financial Plan (LTFP) for 2016/17 – 2018/19.

Summary Position

The building blocks of this financial plan are:

- Allocated funding
- Workforce pay and allowances
- Equipment and infrastructure

The summary position is set out in the table overleaf with further detail at Appendix A.

Summary Long Term Financial Plan					
	2014/15	2015/16	2016/17	2017/18	2018/19
	£000s	£000s	£000s	£000s	£000s
Funding Allocation from PCC	(121,405)	(117,205)	(118,105)	(117,160)	(115,300)
Total Pay Budgets	82,769	79,225	83,085	84,480	84,755
Total Non Pay Budgets	38,636	37,980	36,420	36,280	36,845
Total Planned Expenditure	121,405	117,205	119,505	120,760	121,600
(Surplus)/Deficit	0	0	1,400	3,600	6,300

Funded FTE	2014/15	2015/16	2016/17	2017/18	2018/19
	FTEs	FTEs	FTEs	FTEs	FTEs
Total Police Officers	1,378	1,351	1,351	1,351	1,351
Total PCSOs	145	125	131	132	132
Total Police Staff	184	208	195	185	183
Total FTE	1,707	1,684	1,677	1,668	1,666

The LTFP presented last year was built around the Force response to CSR 2010 and CSR 2013 and, despite the depth of the funding cuts, provided operational and financial stability for the two years 2014/15 and 2015/16 to enable plans to be developed and enacted to deal with the severe funding challenges of 2016/17 and beyond.

A number of cost reduction workstreams have been initiated and ambitious savings assumed in the plan. However, without the benefit of revenue support from the General Fund, the Force is running an underlying deficit (net of support from General Fund) of approximately £3m from 2016/17 rising to £8m in 2018/19. **Although this is an improvement on the position forecast in the previous LTFP it is difficult to envisage bringing about a balanced position without significant service reductions unless this is mitigated by the grant cuts being less severe than anticipated or additional funding being made available from other sources.**

Cost Reduction Measures

The impact of CSRs 2010 and 2013 on funding available to policing in Cleveland is well documented. Cuts in grant amount to £24m in cash terms (£35m in real terms) since 2010/11.

In response to CSR 2010 measures to reduce costs, whilst maintaining both quantitative and qualitative performance, initiated by the Force, PCC and precursor Police Authority include:

- A programme of workforce modernisation and technology improvements through the strategic partnership with Steria
- The development of a sustainable policing model built around a maximum number of 1,400 FTE warranted officers via the Orbis Programme
- Introduction of regulation A19 compulsory retirements

CSR 2013 increased the severity of cuts facing policing in Cleveland and required additional responses to meet the financial challenge, including:

- Revisiting the Orbis policing model and setting revised workforce numbers under Orbis+
- Pausing the A19 retirement programme and achieving officer targets through natural wastage
- Introducing a programme of voluntary redundancies/early retirements for PCSOs and Police Staff
- Working with our key strategic partners to reduce costs
- Exploring collaboration opportunities to reduce costs and deliver more with less resource.

The LTFP presented last year was built around the Force response to CSR 2010 and CSR 2013 and, despite the depth of the funding cuts, provided operational and financial stability for the two years 2014/15 and 2015/16 to enable plans to be developed and enacted to deal with the severe funding challenges of 2016/17 and beyond.

There are a number of significant workstreams in progress to develop a sustainable service model that can effectively respond to threat, harm and risk and bring about safer communities in the face of the continued funding cuts. These include:

- Development of the Strategic Threat and Risk Assessment and Demand model to inform future priorities and ensure resources are targeted to the areas of greatest threat, risk and harm to our communities as budgets reduce.
- Reshaping the workforce in the light of the above to identify optimum numbers, skill / rank mix and deployment
- Development of contract cost reduction proposals with strategic partners
- Implementation of the Cleveland Community Safety Hub and Estates Blueprint
- Formalisation of formal collaboration agreements with North Yorkshire Police and Durham Constabulary and Cleveland Fire Brigade
- Extension of Cleveland and Durham Special Operations Unit
- Further development of North East Regional Special Operations Unit
- Rationalisation of all non-pay budgets

Where appropriate ambitious savings targets have been assumed in the plan from these workstreams. It is essential that these continue to be driven to delivery.

However, despite these savings the Force is running an underlying deficit (net of support from General Fund) of approximately £3m from 2016/17 rising to £8m in 2018/19. Although this is a significant improvement on the position forecast in the previous LTFP it is difficult to envisage bringing about a balanced position without significant service reductions unless this is mitigated by the grant cuts being less severe than anticipated or additional funding being made available from other sources.

Allocated Funding

The funding settlement for 2015/16 announced in December was in line with previous planning assumptions. However, there is currently no clear indication of what will happen to the levels of funding for the police service in 2016/17 and beyond. It remains unlikely that any clear indication will be given before the next

General Election which is in May 2015. However, although no formal announcements have been made, it remains prudent to assume further cuts over the life of the LTFP.

A summary of the funding available to the PCC is given in the table below.

Funding Available to PCC					
	2014/15	2015/16	2016/17	2017/18	2018/19
	£000s	£000s	£000s	£000s	£000s
Government Grant	(89,756)	(85,170)	(83,041)	(80,965)	(78,941)
Council Tax Precept	(28,797)	(30,590)	(30,158)	(30,839)	(31,537)
Council Tax Grants	(7,668)	(7,668)	(6,868)	(6,868)	(6,868)
Funding for NBR*	(126,221)	(123,428)	(120,067)	(118,672)	(117,346)
Specific Grants	(5,619)	(5,640)	(5,640)	(5,640)	(5,640)
Witness & Victim Funding	(180)	(599)	(599)	(599)	(599)
Other Income & Fees	(2,233)	(2,153)	(2,230)	(2,549)	(2,730)
Total Funding	(134,253)	(131,820)	(128,536)	(127,460)	(126,315)
Change in Grant		-5.1%	-2.5%	-2.5%	-2.5%
Change in Total		-1.8%	-2.5%	-0.8%	-0.9%

* Net Budget Requirement

Further detail on the funding assumptions are set out in the PCC's Chief Financial Officer's Budget 2015/16 and Long Term Financial Plan 2016/17 to 2018/19 report.

All funding for Force activity is allocated to the Chief Constable by the PCC. As shown above the PCC has other sources of income with which to mitigate the impact of grant reductions and is using this flexibility to mitigate the impact on Force funding to support service delivery.

Funding Allocation					
	2014/15	2015/16	2016/17	2017/18	2018/19
	£000s	£000s	£000s	£000s	£000s
Allocation	(121,405)	(117,205)	(116,605)	(115,660)	(113,800)
General Fund Support	0	0	(1,500)	(1,500)	(1,500)
Total Allocation	(121,405)	(117,205)	(118,105)	(117,160)	(115,300)
Change in Funding		(4,200)	900	(945)	(1,860)
Change in Funding (%)		-3.5%	0.8%	-0.8%	-1.6%

As shown above the PCC's current plans assume a contribution of £4.5m from reserves over the life of the plan.

The plan also assumes that additional funding will be allocated from earmarked reserves by the PCC to cover the costs of:

- Medical retirements
- Any pay protection agreed in respect of the proposed job evaluation scheme

Pay Budgets

In December 2014, the Force completed a Strategic Threat and Risk Assessment (STRA) to provide an objective evaluation of the operational risks to our communities to inform the planning and priority setting process for 2015/16 and beyond.

This, together with our demand profile and organisational risk assessment, will define future priorities and optimum workforce numbers, mix and deployment to ensure

resources are targeted to the areas of greatest threat, risk and harm to our communities as budgets reduce.

This work is currently in progress so the LTFP is based on the Orbis+ establishment of 1,351 FTE Police Officers and 132 FTE PCSOs as set out below:

Workforce Summary				
	2015/16	2016/17	2017/18	2018/19
	FTEs	FTEs	FTEs	FTEs
Police Officers-Orbis	1,333	1,333	1,333	1,333
Police Officers-Other	18	18	18	18
PCSOs	125	131	132	132
Staff	191	188	185	183
Staff-Fixed Term	17	7	0	0
Total	1,684	1,677	1,668	1,666

Pay awards have been assumed at 2% per annum from September 2016. A variation of 0.5% creates a benefit/pressure of approximately £400k against pay budgets and £70k on contract uplifts.

Budgets have been increased by £1.6m per annum in respect of increased employer's national insurance contributions from 2016/17 onwards when reduced 'contracted out' status ends.

Police Officers

Following CSR 2013, the target number of Police Officers was revised downwards to the Orbis+ target of 1,333 FTE. In addition to the Orbis+ model, the Force also employs 18 FTE officers seconded to other agencies whose roles would be deleted if their dedicated funding streams stopped. Accordingly, the Force needs to employ a total of 1,351 FTE officers to fulfil its obligations.

As previously reported, during 2014/15 the Force has experienced an unprecedented and higher than expected numbers of leavers. This has resulted in plans to bring in 300 new recruits over the life time of the LTFP. This is an ambitious target but essential to sustain an effective policing service.

Accordingly, the police pay budget provides for 1,351 FTE police officers with a vacancy factor reduction of approximately 1.5%.

In addition to the Force budget the PCC has established earmarked reserves to cover the cost of:

- Medical retirements
- Recruitment of Special Constables

Police Community Support Officers (PCSOs)

Following CSR 2013, the target number of Police Community Support Officers was revised downwards to 132 FTE. These have been allocated across Local Policing Areas pro rata to demand, threat and risk.

It is proposed to recruit 10 PCSOs per year as this is the minimum cost effective cohort. This is not scheduled until March 2016 to align with the Police Officer recruitment programme, therefore, numbers in post will equate to 125 FTE across the year based on current assumptions in respect of leavers.

No vacancy factor reduction has been built in in respect of PCSOs.

Police Staff

Police Staff numbers were rebalanced during 2014/15 and a number were released under the Early Retirement/Voluntary Redundancy scheme whilst other business critical areas were strengthened using fixed term contracts. This is an interim position pending the workforce reshaping exercise reported above.

A 5% vacancy reduction has been applied to Police Staff to reflect the level of vacancies currently being carried pending the review.

Equipment and Infrastructure

Revenue

An overall inflation uplift of 1.2% has been provided in 2015/16 with 1.8% in subsequent years. This will be allocated to specific budget heads in accordance with need e.g. business rates; contractual uplifts etc.

All non pay budgets have been reviewed and adjusted in respect of savings or unavoidable pressures.

Capital

Operational assets are a vital platform for the delivery of effective policing services. The proposals put forward in the capital plan are those necessary to refresh and enhance the asset base and are set out in Appendix B and summarised in the table below.

Capital Summary				
	2015/16	2016/17	2017/18	2018/19
	£000s	£000s	£000s	£000s
Facilities	6,660	9,493	90	90
ICT	283	240	275	0
Fleet	815	920	1,155	762
Innovation Fund	226	38	0	0
Provision	50	50	50	50
Total	8,034	10,741	1,570	902

The proposals are informed by condition deficiency surveys, 'fit for purpose' reviews, equipment replacement programmes and mandatory requirements.

Those revenue consequences of the capital proposals falling to the Chief Constable are factored into the revenue plan.

Risk Assessment

A risk assessment of the financial proposals has been undertaken and is set out Appendix C.

Iain Spittal
T/Chief Constable

Summary Long Term Financial Plan 2015/16-2018/19

	2014/15	2015/16	2016/17	2017/18	2018/19
	£000s	£000s	£000s	£000s	£000s
Funding Allocation from PCC	(121,405)	(117,205)	(118,105)	(117,160)	(115,300)
Police Force Planned Expenditure					
Pay Budgets					
Police pay	71,912	68,715	72,290	73,610	73,530
Police Community Support Officer pay	4,416	3,770	4,075	4,170	4,420
Staff pay	6,441	6,740	6,720	6,700	6,805
Total Pay	82,769	79,225	83,085	84,480	84,755
Non-Pay Budgets					
Major contracts	22,426	22,095	20,970	21,280	21,595
Other pay and training	276	320	320	320	320
Injury and medical police pensions	2,360	1,993	2,013	2,013	2,013
Premises	3,811	3,544	3,510	3,065	3,003
Supplies and services	5,645	5,605	5,914	6,409	6,721
Transport	1,762	1,718	1,718	1,718	1,718
External support	2,356	2,705	1,975	1,475	1,475
	38,636	37,980	36,420	36,280	36,845
Total Planned Expenditure	121,405	117,205	119,505	120,760	121,600
(Surplus)/Deficit	0	0	1,400	3,600	6,300

Funded FTEs	2014/15	2015/16	2016/17	2017/18	2018/19
	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers-Orbis+	1,362	1,333	1,333	1,333	1,333
Police Officers-Other	16	18	18	18	18
PCSOs	145	125	131	132	132
Police Staff-Orbis+	184	191	188	185	183
Police Staff -Fixed Term	0	17	7	0	0
Total Funded FTEs	1,707	1,684	1,677	1,668	1,666

Capital Plan 2015/16-2018/19

	2015/16	2016/17	2017/18	2018/19	Status
	£000s	£000s	£000s	£000s	
Facilities					
Cleveland Community Safety Hub	6,500	9,403	-	-	AfD
Rewiring of Stockton HQ	40	40	40	40	AIP
Rewiring of North Ormesby	120	-	-	-	AIP
Fixed wire testing	-	50	50	50	
Total Facilities Schemes	6,660	9,493	90	90	
ICT					
Public Service Network Policing (PSNP)	110	-	-	-	AfD
Telephony Refresh	-	240	-	-	
Wide Area Network (WAN)	-	-	275	-	
Weston digital Audio Net	25	-	-	-	AIP
Storage Enclosure Update	60	-	-	-	AIP
Tape Back up Technology Refresh	40	-	-	-	AIP
EROS-Camera Enforcement -BOF	48	-	-	-	AfD
Total ICT Schemes	283	240	275	0	
Fleet					
Fleet replacement	660	765	1,000	662	AfD
Vehicle write off fund	100	100	100	100	AfD
Black box replacement programme	55	55	55	-	AfD
	815	920	1,155	762	
Police Innovation Fund					
Cyber Crime Investigation (50%)	120	-	-	-	AIP
Data Quality-Golden Nominal (50%)	75	38	-	-	AIP
Multi Agency Safeguarding Hub (MASH)	31	-	-	-	AIP
Community Safety Hub (Inc. in CCSH Budget)	-	-	-	-	
	226	38	0	0	
Provision for business cases	50	50	50	50	
TOTAL CAPITAL SCHEMES	8,034	10,741	1,570	902	
Key					
AIP - Approved in Principle					
AFD - Approved for Delivery					

Long Term Financial Plan (LTFP) 2015/16 to 2018/19 – Assessment of Risks

Risk	Detail	Mitigation
<p>In Year funding cut.</p>	<p>The Government impose an in year funding cut that the PCC passes on to the Force.</p>	<p>The PCC may absorb an in-year cut in total or part through the use of reserves or income surpluses.</p>
<p>Future year's funding cuts assumed in the LTFP are too low.</p>	<p>The LTFP assumes 2.5% respectively over the years 2015/16 to 2017/18. If reductions are in excess of those forecast, the PCC may not be able to provide the levels of funding assumed.</p>	<p>More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration. However, it is difficult to envisage bringing about a balanced position without significant service reductions unless additional funding is made available from other sources.</p>
<p>The PCC is not able to support revenue from general fund.</p>	<p>The LTFP assumes £1.5m per annum support from General Fund over the last three years of the plan. If grant reductions / other commitments are in excess of those forecast, the PCC may not be able to provide the levels of funding assumed.</p>	<p>More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration. However, it is difficult to envisage bringing about a balanced position without significant service reductions unless additional funding is made available from other sources.</p>
<p>The Employment Tribunal Appeal hearing may rule that A19 retirements are unlawful due to age discrimination.</p>	<p>49 appeals by ex-officers are currently stayed pending the appeal hearing. Any damages awarded by the Tribunal may be of sufficient magnitude to result in the General Fund support to revenue not being available and future allocations being reduced.</p>	<p>Negotiate with Home Office for additional funding should appeal be lost. More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration. However, it is difficult to envisage bringing about a balanced position without significant service reductions unless additional funding is made available from other sources.</p>

Risk	Detail	Mitigation
<p>Pay awards are higher than those assumed in the LTFP.</p>	<p>The LTFP assumes that pay will rise by 2% from September 2016. A movement of 1% would have an impact on pay and contracts of approximately £470k.</p>	<p>More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration. However, it is difficult to envisage bringing about a balanced position without significant service reductions unless additional funding is made available from other sources.</p>
<p>A higher than forecast level of costly major incidents.</p>	<p>The number and cost of major incidents in any one year is unpredictable.</p>	<p>There is sufficient flexibility in the plan to absorb some additional costs depending on the magnitude and the time of year the issue becomes known. The PCC may absorb any additional costs in total or part through the use of reserves or income surpluses.</p>
<p>National mandate.</p>	<p>In recent years there has been national mandate of systems e.g. PSNP, resulting in unplanned costs to the Force.</p>	<p>There is sufficient flexibility in the plan to absorb some additional costs depending on the magnitude and the time of year the issue becomes known. The PCC may absorb any additional costs in total or part through the use of reserves or income surpluses.</p>

**Report of the Chief Financial Officer for the Police and Crime Commissioner
(PCC) to the PCC
20th February 2015**

Status: For Decision

Treasury Management and Prudential Indicators 2015/19

1. Purpose

To comply with the CIPFA Prudential Code of Practice, the PCC is required to set a range of Prudential Indicators for the financial year 2015/16. The code states that Prudential Indicators for Treasury Management should be considered together with the Annual Investment Strategy for 2015/16. The content of this report addresses this requirement.

2. Recommendations

The PCC is asked to:

- 2.1 Approve the Prudential Indicators, set out in 3.5, 3.6 and 3.7.
- 2.2 Approve the Annual Investment Strategy set out at Appendix A.
- 2.3 Approve the Treasury Management Policy in Appendix C.
- 2.4 Note that future investments will be placed in line with the strategy in Appendix A.
- 2.5 Approve that an overdraft of up to £5m can continue to be used with NatWest Bank and used as a form of temporary borrowing to manage the short-term timing differences between cash payments and receipts.

3. Reasons

3.1 Prudential Indicators

The Prudential Code requires authorities (including the PCC) to self regulate the affordability, prudence and sustainability of their capital expenditure and borrowing plans, by setting estimates and limits, and by publishing actuals, for a range of Prudential Indicators. It also requires them to ensure their Treasury Management Practices are in accordance with good practice.

3.2 The Code imposes on authorities clear governance procedures for setting and revising of Prudential Indicators, and describes the matters to which an authority will have regard when doing so. This is designed to deliver accountability in taking capital financing, borrowing and Treasury Management decisions. A fundamental provision of the Prudential Code is that over the medium term net borrowing will only be for a capital purpose.

3.3 Under the Code, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to the code. Under the code The PCC are required to set a range of Prudential Indicators for the financial year 2015/16.

3.4 The code states that Prudential Indicators for Treasury Management should be considered together with the Annual Investment Strategy.

3.5 Affordability

The following indicators are required to assess the affordability of the capital investment plans. They provide an indication of the impact of the capital investment plans on overall PCC finances. The PCC is requested to approve the following:

3.5.1 *Ratio of Financing Costs to Net Revenue Stream*

This indicator identifies the trend in the cost of capital against the net budgetary requirement.

In 2015/16 the actual cost in this area is expected to be £5,590k; however of this, £3,744k is attributable to our PFI's (£2,945k of interest charges and £799k of MRP). These PFI charges are essentially covered by separate PFI Grants totalling £4,109k.

Financing Costs to Net Revenue Streams	2015/16	2016/17	2017/18	2018/19
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£001
Minimum Revenue Provision (MRP)	1,901	1,950	2,333	2,620
Interest Payable on Borrowing	3,739	3,670	3,733	3,653
Interest Receivable	(50)	(50)	(50)	(50)
Financing Costs	5,590	5,569	6,016	6,223
Net Revenue Stream	123,428	120,066	118,672	117,346
Ratio %	4.5%	4.6%	5.1%	5.3%

Given that funding for PFI's is dealt with by a separate specific grant then the underlying level of funding that will be set aside to service borrowing (excluding PFI's) in 2015/16 will be 1.5% of our Net Revenue Stream, as per the table below:

Financing Costs to Net Revenue Streams (Excluding PFI)	2015/16	2016/17	2017/18	2018/19
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Minimum Revenue Provision (MRP)	1,102	1,107	1,111	1,115
Interest Payable on Borrowing	794	809	826	777
Interest Receivable	(50)	(50)	(50)	(50)
Financing Costs	1,846	1,865	1,887	1,842
Net Revenue Stream	123,428	120,066	118,672	117,346
Ratio %	1.5%	1.6%	1.6%	1.6%

3.5.2 *Incremental Impact of Capital Investment Decisions on Band D Council Tax*

This indicator shows the incremental impact of the additional capital expenditure that is planned in the current programme on the Band D council tax.

Council Tax	2015/16	2016/17	2017/18	2018/19
	Estimate	Estimate	Estimate	Estimate
	£	£	£	£
Band D Impact	(1.74)	(0.07)	1.45	0.66

The PCC has approved a 1.99% increase in Precept for 2015/16 and the level of Council Tax for a Band D property will increase by £4.02. However as a result of the changes to the way that the PCC is funding capital expenditure there has been a reduction in the level of resources that is needed to be set aside to fund the capital programme. The impact of these decisions is that £1.74 less per Band D property is being set aside for borrowing costs than was the case in 2014-15. This builds on the £1.38 reduction per Band D property that occurred in 2014/15 in comparison to 2013/14. This in effect means that more of the precept and the precept increases are being focused on service delivery and not on debt repayments.

3.6 Prudence

The table below summarises the Capital Programme that is also for approval, plus amendments for PFI expenditure as dictated by International Accounting Standards.

Capital Expenditure	2015/16	2016/17	2017/18	2018/19
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£001
Capital Expenditure	8,034	10,741	1,570	902
PFI Capital Expenditure	804	955	483	483
Total Capital Expenditure	8,838	11,696	2,053	1,385
Funded By:				
Gross Borrowing	3,760	4,760	760	760
PFI Borrowing	0	0	0	0
Other Capital Resources	5,078	6,936	1,293	625
%age of Expenditure funded by Borrowing	42.5%	40.7%	37.0%	54.9%

The level of borrowing needed to maintain the current plans of the organisation is significantly lower than has been the case in previous years; as such the funding of capital is on a much more sustainable footing. The only unsupported borrowing factored into the plans over the next 4 years is to fund the Community Safety Hub project, over the short term, until the sale of the entire land at Ladgate Lane is complete.

3.6.1 *The PCC's Borrowing Need (The Capital Financing Requirement)*

The Capital Financing Requirement (CFR) measures the PCC's underlying need to borrow for Capital purposes and ensures that borrowing is only undertaken to fund capital assets and not support revenue expenditure.

The PCC is asked to approve the following CFR projections:

Capital Financing Requirement	2015/16	2016/17	2017/18	2018/19
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Opening Capital Financing Requirement	18,072	18,189	18,301	18,409
Supported Borrowing	760	760	760	760
MRP on Supported Borrowing	(643)	(648)	(652)	(656)
Closing Capital Financing Requirement	18,189	18,301	18,409	18,513
Unsupported borrowing to fund Capital Expenditure	12,546	16,546	16,546	16,546
PFI Borrowing	34,978	34,978	34,978	34,978
Total CFR Base on which MRP is calculated	65,713	69,825	69,933	70,037
MRP on Unsupported Borrowing	(2,052)	(2,511)	(2,969)	(3,428)
MRP on PFI	(8,171)	(9,014)	(10,236)	(11,741)
Total CFR Base for borrowing purposes	55,490	58,301	56,728	54,867

The Gross Borrowing requirement detailed in the table in 3.6 above increases the CFR. The PCC is required to make a statutory charge to revenue for the repayment of supported debt (the Minimum Revenue Provision) and this reduces the CFR.

3.6.2 *Limits to Borrowing Activity*

Within the Prudential indicators there are a number of indicators to ensure that the PCC operates its activities within well defined limits.

For the first of these the PCC needs to ensure that its total borrowing net of any investments does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years. This allows some flexibility for limited early borrowing for future years, to take advantage of market opportunities and to build in budget uncertainty.

	2015/16	2016/17	2017/18	2018/19
Net Borrowing and the Capital Financing Requirement (CFR)	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£001
Borrowing	22,260	25,160	20,416	14,672
PFI Borrowing	26,807	25,964	24,742	23,520
Investments	(4,000)	(4,000)	(4,000)	(4,000)
Net Borrowing	45,067	47,124	41,158	34,192
Total CFR Base for borrowing purposes	55,490	58,301	56,728	54,867

The projected forecasts detailed in the table above show that there is still some margin between this and the CFR and therefore the PCC will be well within the limits required.

3.6.3 A further two prudential indicators control or anticipate the overall level of borrowing. These are:

- The **Authorised Limit** which represents the limit beyond which borrowing is prohibited and needs to be set and revised by the PCC, borrowing beyond this limit would be ultra vires. The provision for temporary borrowing allows for any additional potential borrowing that might result from the cash flow timings involved in the sale of Ladgate and subsequent build of the Community Safety Hub.
- The **Operational Boundary** which is based on the probable external debt during the course of the year. It includes scope for borrowing for revenue purposes that may be required in the short term during the year, if for instance a large grant payment was delayed. This also takes into account the flexibility for the PCC to have an overdraft of £5,000k. Within this indicator the Provision for Temporary Borrowing is requested to be £5,000k.

The PCC is asked to approve the following limits:

Authorised Limit for External Debt	2015/16	2016/17	2017/18	2018/19
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£001
Borrowing	22,260	25,160	20,416	14,672
PFI Borrowing	26,807	25,964	24,742	23,520
Provision for Temporary Borrowing	10,000	7,000	7,000	7,000
	59,067	58,124	52,158	45,192

Operational Boundary for External Debt	2015/16	2016/17	2017/18	2018/19
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Borrowing	22,260	25,160	20,416	14,672
PFI Borrowing	26,807	25,964	24,742	23,520
Provision for Temporary Borrowing	5,000	5,000	5,000	5,000
	54,067	56,124	50,158	43,192

3.7 Treasury Management Indicators

The purpose of these is to contain the activity of the Treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the PCC's overall financial position. The PCC is asked to approve the indicators below:

3.7.1 *Upper Limits on Borrowing*

This indicator identifies a maximum level of borrowing that can be made at Fixed and Variable interest rates.

Borrowing	2015/16	2016/17	2017/18	2018/19
	Estimate	Estimate	Estimate	Estimate
	%	%	%	%
Upper Limit on Fixed Interest Rate Exposures	100	100	100	100
Upper Limit of Variable Rate Exposures	25	25	25	25

This means 75%-100% of our borrowing will be at rates fixed until the loan is repayable, while no more than 25% will be at variable rates so liable to change at short notice.

The PCC's use of variable rate loans previously is as a result of the potential use of the overdraft facility that is referenced elsewhere within this report.

3.7.2 Upper Limits on Investments

This indicator identifies a maximum level of investments that can be made at Fixed and Variable interest rates.

Investments	2015/16	2016/17	2017/18	2018/19
	Estimate	Estimate	Estimate	Estimate
	%	%	%	%
Upper Limit on Fixed Interest Rate Exposures	100	100	100	100
Upper Limit of Variable Rate Exposures	20	20	20	20

This means 80%-100% of our investments will be at rates fixed until the investment matures, while no more than 20% will be at variable rates so liable to change at short notice.

The PCC has not entered into any variable rate investments previously and there is no intention to do so in the future. However, the indicator provides some flexibility should the need ever arise.

3.7.3 Maturity Structure of Debt

These gross limits are set to reduce the PCC's exposure to large fixed rate sums falling due for re-financing within a short timeframe. Upper and lower limits are required which the PCC is asked to approve.

Maturity Structure of Debt	2015/16		2016/17		2017/18		2018/19	
	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0%	50%	0%	50%	0%	50%	0%	50%
Over 12 months and under 2 years	0%	50%	0%	50%	0%	50%	0%	50%
Over 2 years and under 5 years	0%	50%	0%	50%	0%	50%	0%	50%
Over 5 years and under 10 years	0%	85%	0%	85%	0%	85%	0%	85%
Over 10 years	0%	100%	0%	100%	0%	100%	0%	100%

3.7.4 Upper Limit for Sums Invested for a Period of over 364 days

Principal Sums Invested > 1yr	2015/16	2016/17	2017/18	2018/19
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Maturity Profile	2,000	2,000	2,000	2,000

This indicator sets a limit on the level of investments that can be made for more than 364 days. The PCC is asked to approve that we do not invest more than £2m for a period of greater than 1 year.

3.8 Annual Investment Strategy

The proposed Annual Investment Strategy for 2015/2016 is attached at Appendix A. This includes the criteria for inclusion on the Counterparty List and also how this is split between Specified and Non-specified Counterparties.

3.9 Returns on Investments

While returns on investments are of secondary importance to the security of the sums invested, it is still important to consider the potential impact of approving the Investment Strategy put forward. The limited number of counterparties on our list potentially restricts the returns, in the form of interest receivable, which the PCC can make.

3.10 Given the current low level of interest rates, the Bank of England Base rate is currently 0.5% and has been for almost 6 years, the impact will be relatively small. The budget set for interest receivable in 2015/16 is £50k.

3.11 Counterparty Limits

As per the strategy in Appendix A, limits for specified counterparties are:

- The maximum investment with any counterparty is £7 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £10 million.

3.12 For non-specified counterparties these are:

- The maximum investment with any counterparty is £7 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £10 million.

4. Implications

4.1 Finance

There are no financial implications arising from this report that is not included above.

4.2 Diversity & Equal Opportunities

There are no issues arising from this report to bring to the PCC's attention.

4.3 Human Rights Act

There are no Human Rights Act implications arising from this report.

4.4 Sustainability

This report is part of the process to establish sustainable annual and medium term financial plans and maintain prudent financial management.

4.5 Risk

The investment strategy put forward today seeks to minimise the risks of the PCC while ensuring that the cash balances of the PCC are managed in line with proper practice and to ensure funds are available to make payments at the correct time.

5. Conclusions

5.1 To comply with the CIPFA Prudential Code of Practice the PCC is required to set a range of Prudential Indicators for the financial year 2015/16.

5.2 The CIPFA code does not set benchmark indicators. Each organisation must use its judgement when setting indicators.

5.3 Based on the indicators proposed above, the revenue budget, capital programme and associated financing are within prudent limits.

5.4 A prudent Investment Strategy has been put forward for approval that seeks to firstly secure the money being invested before secondly looking at rates of return.

Michael Porter
CFO for the PCC

PCC for Cleveland Annual Investment Strategy

The PCC for Cleveland's strategy has regard to the guidance on Local Government Investments issued in March 2004 and CIPFA's Treasury Management in Public Services 2011 Edition.

The main investment priorities are:

- The security of capital; and
- The liquidity of its investments.

The PCC for Cleveland also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

The borrowing of monies purely to invest or lend to others and make a return is not lawful and the PCC for Cleveland will not engage in such activity.

The guidance on Local Government Investments sets out a range of investments which can be used and these are listed as either "specified" or "non-specified" investment categories.

In practice it is not intended that the PCC for Cleveland should depart significantly from the existing procedures, which have proven to be robust.

The guidance recognises that there has been much debate about the reliance placed by local authorities on counter parties' credit ratings. Credit ratings are an important source of information but it is important to realise that they do have limitations. Authorities are advised to have regard to the ratings issued by the three main agencies and to make their decisions on the basis of the lowest rating. Ratings should be kept under review and 'ratings watch' notices acted upon.

Credit ratings should not be relied upon in isolation to identify counterparties, but should be considered along side generally available market information. Other sources of information should be reviewed by authorities. These include the quality financial press, market data, information on government support for banks and the credit ratings of that government support.

A PCC should define what it means by a high or strong credit rating in order that its treasury management strategy is clear and its approach to risk is transparent.

Although the guidance definition of Non-Specified Investments is "one not meeting the definition of a Specified Investment", the PCC is required to identify which categories of investments are identified as prudent to use and the limits on any such investment either individually or in total. It is because some organisations do not subscribe to credit rating agencies that they have to be included as Non-Specified Investments, rather than any concern over their creditworthiness.

Limits and Definition of Specified Investments

- (a) The investment is made with the UK Government or a Local Authority (as defined in the Local Government Act 2003).
- (b) The investment is made with a Money Market Fund which, at the time the investment is made, has been awarded the highest credit rating, (AAA), by a credit rating agency.
- (c) The investment is made with the PCC's own bank, currently NatWest.
- (d) The investment is made with a Nationalised Bank or Building Society
- (e) The investment is made with a Bank or Building Society that is part owned by the UK Government.

Where officers become aware of a revision of a body's rating the body should be removed from the list of Specified Investments. The PCC currently has no method of knowing about changes in ratings and has organised the Specified and Non-Specified split to avoid subscribing to one of the companies supplying monthly ratings, which would be expensive.

All Specified Investments must be denominated in sterling and must be one where the PCC may require it to be repaid or redeemed within 12 months of the date on which the investment is made. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The minimum % of the total of all investments which must be Specified Investments, at the time the investment is made, is 5%.
- The maximum investment with any one counterparty is £7 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £10 million.

Limits and Definition of Non-Specified Investments

The investment is made with one of the bodies listed in Appendix B "Non Specified Investments", or the investment is for a period of one year or longer.

All Non-Specified Investments must be denominated in sterling. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The maximum investment with any one counterparty is £7 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £10 million
- The maximum % of the total of all investments for a period of one year or longer, at the time the investment is made, is 10%.

Criteria for Inclusion on Investment Counterparty List

- UK Clearing Banks and their wholly owned subsidiaries. Nationalised Banks and Nationalised Building Societies.
- UK Local Authorities, Police and Crime Commissioners and nationalised industries.
- The UK Government.

Counterparty List

Specified Investments:

UK Government

Local Authorities

Other PCCs

AAA – rated Money Market Funds

NatWest Bank (The PCC's own bank)

Banks Part Owned by the UK Government

1. Lloyds Banking Group
2. Royal Bank of Scotland

Unspecified Investments:

- UK Clearing Banks (Not included elsewhere on the Investment List)
 1. Santander UK
 2. Bank of England
 3. Barclays
 4. Clydesdale
 5. The Co-operative Bank
 6. HSBC
 7. Nationwide
 8. Bank of Scotland

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The PCC for Cleveland also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

The borrowing of monies purely to invest or lend to others and make a return is not lawful and the PCC for Cleveland will not engage in such activity.

The guidance on Local Government Investments sets out a range of investments which can be used and these are listed as either "specified" or "non-specified" investment categories.

In practice it is not intended that the PCC for Cleveland should depart significantly from the existing procedures, which have proven to be robust.

The guidance recognises that there has been much debate about the reliance placed by local authorities on counter parties' credit ratings. Credit ratings are an important source of information but it is important to realise that they do have limitations. Authorities are advised to have regard to the ratings issued by the three main agencies and to make their decisions on the basis of the lowest rating. Ratings should be kept under review and 'ratings watch' notices acted upon.

Credit ratings should not be relied upon in isolation to identify counterparties, but should be considered along side generally available market information. Other sources of information should be reviewed by authorities. These include the quality financial press, market data, information on government support for banks and the credit ratings of that government support.

A PCC should define what it means by a high or strong credit rating in order that its treasury management strategy is clear and its approach to risk is transparent.

Although the guidance definition of Non-Specified Investments is "one not meeting the definition of a Specified Investment", the PCC is required to identify which categories of investments are identified as prudent to use and the limits on any such investment either individually or in total. It is because some organisations do not subscribe to credit rating agencies that they have to be included as Non-Specified Investments, rather than any concern over their creditworthiness.

Limits and Definition of Specified Investments

- (a) The investment is made with the UK Government or a Local Authority (as defined in the Local Government Act 2003).
- (b) The investment is made with a Money Market Fund which, at the time the investment is made, has been awarded the highest credit rating, (AAA), by a credit rating agency.
- (c) The investment is made with the PCC's own bank, currently NatWest.
- (d) The investment is made with a Nationalised Bank or Building Society
- (e) The investment is made with a Bank or Building Society that is part owned by the UK Government.

Where officers become aware of a revision of a body's rating the body should be removed from the list of Specified Investments. The PCC currently has no method of knowing about changes in ratings and has organised the Specified and Non-Specified split to avoid subscribing to one of the companies supplying monthly ratings, which would be expensive.

All Specified Investments must be denominated in sterling and must be one where the PCC may require it to be repaid or redeemed within 12 months of the date on which the investment is made. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The minimum % of the total of all investments which must be Specified Investments, at the time the investment is made, is 5%.
- The maximum investment with any one counterparty is £7 million.
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The investment is made with one of the bodies listed in Appendix B "Non Specified Investments", or the investment is for a period of one year or longer.

All Non-Specified Investments must be denominated in sterling. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The maximum investment with any one counterparty is £5 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £7 million
- The maximum % of the total of all investments for a period of one year or longer, at the time the investment is made, is 10%.

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- UK Local Authorities, Police and Crime Commissioners and nationalised industries.
- The UK Government.

Counterparty List

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UK Government

Local Authorities

Other PCCs

AAA – rated Money Market Funds

NatWest Bank (The PCC's own bank)

Banks Part Owned by the UK Government

1. Lloyds Banking Group
2. Royal Bank of Scotland

Unspecified Investments:

- UK Clearing Banks (Not included elsewhere on the Investment List)
 1. Santander UK
 2. Bank of England
 3. Barclays
 4. Clydesdale
 5. The Co-operative Bank
 6. HSBC
 7. Nationwide
 8. Bank of Scotland

TREASURY MANAGEMENT POLICY

(To be adopted by the Police and Crime Commissioner for Cleveland)

The Police and Crime Commissioner for Cleveland (PCC) adopts as part of its Financial Regulations the following four clauses of the CIPFA Code of Practice for Treasury Management and the Treasury Policy Statement as set out below. When considering the contents of this document it should be remembered that the responsibility for Treasury Management **must always** stay with the PCC and cannot be passed to an external party.

CLAUSE 1

The PCC will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement (see Appendix 1), stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable treasury management practices (TMPs)(see Appendix 2), setting out the manner in which the PCC will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in the Code, subject only to amendment where necessary to reflect the particular circumstances of the PCC. Such amendments will not result in the PCC materially deviating from the Code's key principles.

CLAUSE 2

The PCC will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

CLAUSE 3

The PCC retains the responsibility for the implementation and regular monitoring of its treasury management policies and practices, and delegates the execution and administration of treasury management decisions to the Chief Financial Officer of the Office of the Police and Crime Commissioner (OPCC), who will act in accordance with the PCC's policy statement and TMPs.

CLAUSE 4

The PCC nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

THE TREASURY MANAGEMENT POLICY STATEMENT (see Clause 1)

The treasury management policy statement defines the policies and objectives of the PCC's treasury management activities:

1. The PCC defines its treasury management activities as:

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

2. The PCC regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the PCC, and any financial instruments entered into to manage these risks.

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

4. The PCC's specific borrowing objective is to achieve the lowest level of interest paid on debt as prudently possible, while at the same time minimising the potential volatility of the average rate of interest.

5. The PCC's specific investment objective is to achieve an overall return on total deposits above the seven day notice London Interbank Bid Rate (LIBID) – the rate at which a bank will bid to borrow money in the London money market – with the minimum risk of capital loss.

THE TREASURY MANAGEMENT PRACTICES (TMPs) and INDICATORS

INDICATORS

There are 4 specific treasury management Prudential indicators. The PCC must set these annually and they must be approved by the PCC prior to the start of the financial year. Their purpose is to restrict the activity of the Treasury function to within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. They are:

- Upper Limits on Variable Interest Rate Exposure
- Upper Limits on Fixed Interest Rate Exposure
- Maturity Structures of Borrowing
- Total Principle Funds invested for greater than 364 days

PRACTICES

There are 12 TMPs specified in the Code and all public sector organisations are expected to include those that are relevant to their Treasury Management powers and the scope of their activities as part of their detailed operational procedures. They cover the following:

- TMP1 – Risk Management
- TMP2 – Performance Management
- TMP3 – Decision-making and analysis
- TMP4 – Approved Instruments, methods and techniques
- TMP5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements
- TMP6 – Reporting requirements and management information arrangements
- TMP7 – Budgeting, accounting and audit arrangements
- TMP8 – Cash and Cash Flow management
- TMP9 – Money Laundering
- TMP10 – Training and Qualifications
- TMP11 – Use of External Service Providers
- TMP12 – Corporate Governance

GUIDANCE ON INVESTMENTS

The PCC must produce an Investment Strategy, which must be approved by the PCC, prior to the start of the financial year. It may be revised during the year, but must be approved again.

The strategy must consider the investment policy in terms of **Security – Liquidity – Yield** and must also define the approach to the use of both “specified” and “non-specified” investments.

Specified Investments are those that offer high security and liquidity and include investments with the UK Government and other local authorities and must be for less than one year and made in sterling.

The Strategy should deal in more detail with non-specified investments, identify the types of such investments, set a limit on the amounts held in them at any time in the year, and have guidelines for making decisions on such investments.

Report of the Chief Finance Officer to the PCC to the Police and Crime Commissioner for Cleveland

20th February 2015

Status: For Decision

Minimum Revenue Provision 2015/16

1. Purpose

- 1.1 Minimum Revenue Provision (MRP) is the annual revenue provision that authorities have to make in respect of their debts and credit liabilities. The requirement to make MRP has existed since 1990.
- 1.2 A report is necessary to seek approval from the PCC as to the annual MRP strategy.
- 1.3 The MRP strategy complements the wider financial picture which aims to provide transparency on the cost to the PCC of taking on new borrowing, therefore linking into the PCC's prudential indicators and the overall management of the PCC's assets.

2. Recommendations

The PCC is asked to approve:

- 2.1 The MRP Strategy for 2015/16, which involves no change from the 2014/15 strategy. Specifically that being:
 - Option 1 ("Regulatory Method") be used to calculate the MRP on existing borrowing (before the 1st April 2008) and any future supported borrowing (after 1st April 2008).
 - Option 4 ("Depreciation Method") be used to calculate the MRP in the case of any future unsupported borrowing (after the 1st April 2008).

3 Reasons

3.1 Minimum Revenue Provision is the annual revenue provision that authorities, which are not debt free, have to make in respect of their debts and credit liabilities. MRP aims to provide transparency as to the cost to the PCC of taking on new borrowing. The requirement to make MRP has existed since 1990.

3.2 Under the Local Authorities (Capital Financing and Accounting) (Amendment) (England) Regulations 2007, the current arrangements for calculating the MRP as specified in the 2003 Regulations have been superseded. The 2007 Regulations now place a general duty on local authorities to make a Minimum Revenue Provision which is considered to be prudent, with the responsibility being placed upon the PCC to approve an Annual MRP Strategy each year.

3.3 The 2007 Regulations require that an Annual MRP Strategy be adopted by the PCC prior to the start of the coming financial year. The PCC can change the method of calculating MRP on an annual basis (subject to the constraints set out below). Once a method has been approved for a particular year, any assets purchased through borrowing that year must continue to have MRP charged in the same way (that is, the PCC can not change the method of calculating MRP on individual assets).

3.4 Options Available

Four options are outlined within the 2007 Regulations for authority's to follow as to the calculation of MRP, however there are certain factors which predetermine the option the PCC must adhere to, depending on the timing of the borrowing (that is before or after the 1st April 2008) and whether the borrowing is supported or unsupported:

3.4.1 Option 1 ("Regulatory Method") and Option 2 ("Capital Financing Requirement (CFR) Method") can only be used to calculate the MRP in the following circumstances:

- Existing borrowing against capital expenditure that was incurred before the 1st April 2008 (regardless of whether the borrowing was supported or unsupported).
- Supported borrowing incurred after the 1st April 2008.

3.4.2 Option 3 ("Asset Life Method") and Option 4 ("Depreciation Method") can only be used to calculate the MRP for new schemes that require the PCC to take on unsupported borrowing after the 1st April 2008.

Appendix 1 provides a glossary of some of the terms used in the paper and calculations. Appendix 2 shows how the MRP figure is calculated under each of the options discussed above.

- 3.4.3 To minimise the impact on revenue the PCC is asked to approve:
- Option 1("Regulatory Method") be used to calculate the MRP on existing borrowing (before the 1st April 2008) and any future supported borrowing (after 1st April 2008)
 - Option 4 ("Depreciation Method") be used to calculate the MRP in the case of any future unsupported borrowing (after the 1st April 2008)

4 Implications

4.1 Finance

The financial implications of this Strategy are factored into the Long Term Financial Plan.

4.2 Diversity & Equal Opportunities

There are no diversity or equal opportunity implications arising from this report.

4.3 Sustainability

The MRP Strategy aims to provide transparency as to the cost to the PCC of taking on new borrowing and links with the Prudential Indicators to determine the sustainability and affordability of all unsupported borrowing undertaken.

4.4 Risk

Insufficient MRP provided for in the PCC's budget. Any new borrowing that the PCC takes out will incur a MRP charge in the revenue budget which will specifically relate to the asset acquired or enhanced. This 'charge' will need to be built into the revenue budget to ensure the PCC has sufficient resources available to meet the liability. The MRP charge increased significantly over the 5 years to 2013/14 with the PCC having to set aside nearly £1.4m (which was about 1% of the total funding available to the PCC in 2013/14) to meet these charges. Given the changes that the PCC has implemented during the previous year the MRP charge reduced by over £250k in 2014/15 and is currently forecast to stay at £1.1m over the next 4 years, although options are being looked at to reduce this further.

5 Conclusion

This report seeks approval from the PCC on the treatment and calculation of MRP, and the Strategy that is used by the PCC and therefore ensures that the PCC is in line with the Local Authority Regulations.

Michael Porter
Chief Finance Officer for the PCC

Glossary of Terms

Adjustment A – Technical accounting adjustment set out in regulations to ensure consistency with previous Capital Regulations

Capital Financing Requirement (CFR) – Amount needed to finance the Capital Programme from previous years (borrowing) and current year (capital receipts, grants etc.)

Prudential Indicators – In order to assess the PCC's ability to afford borrowing when making capital financing decisions and to ensure that prudent levels are set. These indicators show the projected and actual position together with limits which can only be exceeded with approval and in exceptional circumstances

Supported Borrowing – Borrowing for which the Government will provide support through the Revenue Support Grant to meet the cost of borrowing for capital projects

Unsupported (Prudential) Borrowing – Borrowing under the Prudential Code for which the Government will not provide support through the Revenue Support Grant to meet the cost of borrowing for capital projects.

Supported Borrowing (after 1st April 2008) and any Previous Borrowings

Option 1 ("Regulatory Method") – This is the method currently used by the Authority, as set out in the 2003 Regulations. Option 1 is calculated as 4% of the total Capital Financing Requirement for all borrowing, less Adjustment A:

$$4\% (CFR - AA)$$

Where:

- CFR = Capital Financing Requirement
- AA = Adjustment A

Option 2 ("Capital Financing Requirement (CFR) Method") – this uses the same formula as Option 1 but does not take account of Adjustment A.

$$4\% (CFR)$$

Where:

- CFR = Capital Financing Requirement

Once calculated Adjustment A remains a fixed variable within the calculation; in the case of Cleveland Police Authority Adjustment A is £1,997,000 meaning that the MRP calculated under Option 1 will always be £79,880 (4% of £1,997,000) less compared to Option 2.

Unsupported Borrowing (after 1st April 2008)

Option 3 ("Asset Life Method") – The MRP for each asset acquired through unsupported borrowing is calculated using the following formulae:

$$\frac{A - B}{C}$$

Where:

- A = Capital expenditure (unsupported borrowing) on asset
- B = Total MRP already made against the asset
- C = Remaining useful life of the asset

Option 4 ("Depreciation Method") - The MRP for each asset acquired through unsupported borrowing is calculated using the following formulae:

$$\frac{A - B - D}{C}$$

Where:

- A = Capital expenditure (unsupported borrowing) on asset
- B = Total MRP already made against the asset
- C = Remaining useful life of the asset
- D = Residual Value of the Asset

The only difference between the two methods of calculating the MRP is that there is recognition in option 4 that the asset will still be worth 'something' after its useful life has expired.

