POLICE AND CRIME COMMISSIONER FOR CLEVELAND

Reference No: 14 - 2014

THE POLICE & CRIME COMMISSIONER FOR CLEVELAND

DECISION RECORD FORM

REQUEST:
For Approval

Title:
2014-15 Financial Plans

Executive Summary:

Attached to this decision form are the following papers:
- Robustness of Estimates and Adequacy of Financial Reserves
- Budget 2014/15 and Long Term Financial Plan 2015/16 to 2017/18, and Capital Plans 2014/15 to 2017/18
- Prudential Indicators 2014/15 to 2017/18
- Minimum Revenue Provision 2014/15

These papers set out the financial plans of the PCC for 2014/15 and provide forecasts for the following 3 financial years. The PCC is required to set his budget for 2014/15 by the 1st March 2014 in line with the legal requirement to do so.

Decision:

The PCC is asked to take cognisance of the Robustness of Estimates Report and agree to the recommendations in all 4 papers and in doing so set the Revenue and Capital budgets for 2014-15.

Implications:

Has consideration been taken of the following:	Yes	No	
Financial	☒	☐	
Legal	☒	☐	
Equality & Diversity	☒	☐	
Human Rights	☒	☐	
Sustainability	☒	☐	
Risk	☒	☐	

(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 separate papers cover the financial implications in full

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

Please see separate reports

Equality and Diversity Implications

Please see reports

Human Rights Implications

Please see reports

Sustainability Implications

Please see reports

Risk Management Implications

Please see reports

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: 17/2/14

Police and Crime Commissioner:
The above request HAS / ~~DOES NOT HAVE~~ my approval.

Signed: ______ Date: 18/2/14

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

17th February 2014

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 2014/15 Revenue and Capital Budgets, and when considering the Long Term Financial Plan and Capital Plan.

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. The forthcoming year is the final year of the 2010 Comprehensive Spending Review (CSR) round (2011-12 to 2014-15).

4.1.1 Available Funding
The £134,253k of funding forecast to be available to the PCC in 2014-15 to support expenditure is expected from the following sources:

	Actual 2013/14	**Actual 2014/15**
Funding	£000s	£000s
Government Grant	(94,247)	(89,756)
Council Tax Precept	(27,608)	(28,797)
Council Tax Freeze Grant	(800)	(800)
Council Tax Support Grant	(6,848)	(6,868)
Funding for Net Budget Requirement	**(129,503)**	**(126,221)**
Specific Grants	(5,594)	(5,619)
Witness and Victims Funding	0	(180)
Partnership Income/Fees and Charges	(2,362)	(2,233)
Total Funding	**(137,459)**	**(134,253)**
%age change in Total Funding	0.6%	-2.3%

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 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 2013-14.

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 2014/15. 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 2014-15 but would have to be taken into account in 2015-16.

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 £2,233k of income that is factored into the 2014-15 budget for Partnership Income and Fees and Charges is made up of various sources of income including secondment income, special services income, speed awareness income and collaboration income. 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 very low.

4.1.7 The funding that the 2014/15 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 2014/15. 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 <u>Government Funding for 2015/16 and beyond</u>
From 2015-16 the LTFP is based on indicative funding information and the interpretation and calculation of potential levels of Government funding. The LTFP is based on interpreting and estimating the impact of the announcements made to date for 2015-16. These include the following

- A £272m or 3.2% cut to the Policing Budget announced in June 2013
- A further £113m cut to the Home Office budget announced in December 2013
- Top slicing of budgets to fund IPCC and other areas announced as part of the 2014-15 settlement

<u>Based on the above announcements the 2015-16 forecasts are built on a 5% cash cut to the Government Grant.</u>

4.1.10 Each 1% of further cuts in government funding equates to approximately £900k for Cleveland.

4.1.11 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.

4.1.12 It is however reasonable to assume that the reductions in government funding levels that have occurred over the last 4 years of the current spending review will continue into both 2015-16 and will then continue into the following review period.

4.1.13 At this stage the LTFP assumes that real reductions in government funding over the years 2016-17 and 2017-18 are as follows:

- 2015/16 – 2.5%
- 2016/17 – 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 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 in each of the last 4 years. (This is a trend that goes back at least 10 years).

4.1.16 Despite the above, the levels of allowance for non-collection of Council Tax have increased in 2014-15 from circa 3,300 Band D equivalent properties in 2013-14 to circa 4,200 Band D equivalent properties in 2014-15, across the 4 councils.

4.1.17 The assumption therefore in setting the budget for 2014-15 is that around £850k of the 'Police' element of the council tax will not be collected across Cleveland.

4.1.18 Given the trends and the increased allowance for non-collection there is very little risk that the levels of precept contained within the 2014-15 budget will not be achieved.

4.1.19 Future Precept Increases
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 2014-15 this is 2%. The LTFP for 2015-16 and beyond is based on increases in precept of 2.0% per annum however there is no guarantee that 2.0% will not be in breach of future principles that would trigger a referendum. There is therefore a risk that future levels of council tax increases would need to be lower than currently modelled. If this was to occur further pressures and savings would be required to balance the LTFP.

4.1.20 Damping
The Police Allocation Formula (PAF) is used to distribute Police Grant. It is also incorporated in the police element of the system of complex formulae to distribute Formula Grant. The Formula Grant distribution methodology aims to capture the demographic, economic and social characteristics of authorities providing local services. They also take into account authorities' ability to raise income locally from council tax. In the calculation's final stages the damping mechanism ensures funding allocations face minimum year-on-year changes therefore smoothing any distributional turbulence in allocations caused by data or formula changes.

4.1.21 The effects of the damping mechanism provide the PCC for Cleveland with more funding in 2014/15 than the formula calculates that should be received. This is an area of constant review, as is the funding formula itself.

4.1.22 The expectation is that both the formula for allocating resources and the damping mechanism will undergo a significant review over the coming years. As and when more information becomes available in relation to this an update will be provided to the PCC. Given the PCC is a recipient of damping the review has the potential to increase the financial pressures in the coming years.

4.1.23 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.

4.1.24 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.

4.1.25 The PCC is on track to deliver this with the move to a budget of £885k in 2014/15. There are limited risks to the PCC moving to a budget of £885k in 2014/15 and to £850k in 2015/16 other than reduced resources to fund any external support and advice that may arise, however this will need to carefully managed as the Office takes on additional responsibilities around Victims and Witnesses and Commissioning of services.

4.1.26 PCC Initiatives and Victims and Witnesses Services

The 2014-15 budget sets aside £1.5m for PCC Initiatives, from which the PCC can commission services, make community safety grants 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 but there will be times when the PCC will be unable to support initiatives due to lack of resources.

4.1.27 The area of Victims and Witnesses will be new to the PCC in 2014-15 which will in itself provide risks. These risks are likely to be similar to those when the PCC received the Community Safety grant in 2013-14. There may be an expectation from those currently receiving funding that the PCC will continue to provide them with funds and ultimately there is likely to be more demand for this area than the funds available.

4.1.28 Corporate Costs

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 £575k reduction in asset management costs to be delivered over the next 4 years. The risk to the delivery of this comes if the principles to enable to this to happen are changed.

4.1.29 The forecast budgets in the remainder of this area are realistic with the PFI contracts increasing in line with contractual requirements. The challenge in this area is how to develop and deliver savings from these PFI contracts so that resources can be focussed on front line services.

4.1.30 Police Force

4.1.31 There are a number of risks in the 2014/15 budget and LTFP, these are set out below:

4.1.32 Pay Awards and Staffing Levels
The LTFP assumes that from September 2014 pay will increase by 1% for the next 2 years. This is in line with current government proposals and therefore the budget is built on the best information available. The LTFP assumes pay awards will be 2% from September 2016.

4.1.33 Given the high proportion of pay and contracts that are linked to pay awards any variation in the above assumptions will have a significant impact on the figures within the LTFP. There will still need to be negotiations with unions in relation to future pay awards and any variation or concessions resulting in higher awards will have a significant impact. A movement from 1% to 1.5%, for instance, would have a recurring impact of around £500k in relation to the costs to the Force.

4.1.34 The Force plans around staffing numbers within the LTFP are as follows:

	Actual	Actual	Forecasts		
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,441	1,378	1,349	1,349	1,349
PCSOs	158	145	132	132	132
Police Staff - Police Force	215	184	166	166	166
Totals	**1,814**	**1,707**	**1,647**	**1,647**	**1,647**

4.1.35 Police Officer numbers will need to be kept under close review during the year to see if the assumptions around Police Officer retirements, leavers and Medical Retirements will enable some limited Police Officer recruitment within 2014-15 while staying within the budget set for 2014-15.

4.1.36 The risk going forward in terms of Police Officer numbers is that, based on current projections, maintaining 1,349 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.

4.1.37 The Police Force is currently implementing a programme of Early Retirements/Voluntary Redundancies in relation to PCSO's. Based on known decisions if no additional leavers/retirements take place during the year then this could result in a small over spend however the risk is small.

4.1.38 By the start of April 2015 the Force is also planning to reduce the number of PCSOs to 132 FTEs. There is therefore the potential and likelihood that exit payments for additional FTEs will be required. Based on the experience of those ER/VRs made in 2013-14, and assuming no leavers will occur other than as a result of ER/VR/CR, around £400k could be required in 2014-15 for this process. An earmarked reserve has been proposed to cover off the risk as part of the proposed budget for 2014-15.

4.1.39 The Police Force is also implementing a programme of ER/VR's for staff. Based on known decisions if no additional leavers/retirements take place during the year then this could result in a small over spend however the risk is small.

4.1.40 By the start of April 2015 the Force is planning to reduce the number of staff to 166 FTEs. There is therefore the potential and likelihood that exit payments could be required during 2014-15. Based on an assumption that all leavers will be as a result of ER/VR/CR then the cost is estimated to be £475k. An earmarked reserve has been proposed to cover off the risk as part of the proposed budget for 2014-15.

4.1.41 Inflation
The 2014/15 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.

4.1.42 Savings Requirements
The 2014/15 budget requires the deliver of £7.4m of savings, £45k from the Office of the PCC, £725k from the Corporate Budgets and PCC Initiatives budgets and £6,585k from the Police Force. This is on top of the £25m that have been delivered in the period 2011/12 to 2013/14.

4.1.43 All of the savings proposals for 2014/15 seem robust with the vast majority, £5.1m, of the savings and budget reductions being delivered from the changes to the staffing structures of the Force, deleting vacancies, changes to national terms and conditions and reductions in employers pension contribution rates.

4.1.44 Despite the significant cuts that have taken place over the last 3 years the final outturn for the financial years 2010/11, 2011/12 and 2012/13 have been underspends of £650k, £835k and £421k respectively. 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 2013/14 as reported throughout the current financial year.

4.1.45 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 2014/15 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, primarily due to reductions in staffing at a quicker rate than expected, and the PCC must guard against this impacting on performance against the Police and Crime Plan.

Future Savings Plans and Future Budget Gaps

4.1.46 The current LTFP is showing a balanced position for 2015/16 however this is built on the assumption of the delivery of £5.6m of further savings for that year. At this stage I would estimate that plans are in plan to deliver £3.7m of these needed savings, however significant work is required to identify and deliver the £1.9m of contract/procurement savings that are needed to balance the budget in 2015/16.

4.1.47 This is an area that will need to be kept under review throughout 2014/15 to ensure that plans are in place to deliver these savings for the beginning of 2015/16.

Usable Reserves

5.2.7 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 2013 the Audited Statement of Accounts for the PCC showed that the organisation had Total Usable Reserves of £11,087k and based on the current plans I do not expect this number to change significantly over the next 2 years.

5.2.8 While £11,087k 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 until there is clarity on the potential exits costs for 2014/15, the contract/procurement savings needed to balance the plan for 2015/16 are firmed up and future funding levels are clearer.

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 2014/15 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 adequate levels of financial reserves and general balances through 2015/16 provided that service restructuring is delivered and future growth, if any, is managed and funded from sustainable savings.

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 2014/2015 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 2014/2015 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 both 2014/15 and 2015/16 are 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 the both the PCC and the Police Force. Given the £32m of savings that have been delivered during the first 4 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

Earmarked Reserves as at 31st March 2013	£000
Direct Revenue Funding of Capital	(105)
Injury Pension Reserve	(16)
PFI Sinking Fund	(247)
Incentivisation Grant	(197)
Neighbourhood Policing	(16)
Specials	(62)
Urlay Nook TTC	(48)
Development Fund	(12)
Invest to Save	(83)
Devolved Budget Carry Forwards	(8)
Accommodation Costs	(48)
PCC Transition Reserve	(292)
Police Property Act Fund	(30)
Risk Reserve	(66)
Revenue Grants Unapplied	(463)
Total	**(1,692)**

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

17th February 2014

Status: For Approval

Budget 2014/15 and Long Term Financial Plan 2015/16 to 2017/18 and Capital Plans 2014/15 to 2017/18

1. Executive Summary

1.1 Purpose of the Report

This report asks the PCC to agree the Budget proposals for 2014/15 and the Long Term Financial Plan (LTFP) for 2014/15 – 2017/18 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 2014/15 and the indicative allocations for the period 2015/16 to 2017/18.

2. Recommendations

2.1 The PCC is requested to approve the allocation of the £134,253k of revenue funding, that is forecast to be received by the PCC in 2014/15, in the following areas:

- £885k to run the Office of the PCC (see Appendix A)
- £9,260k for Corporate Costs
- £1,768k to support PCC Initiatives and Victims and Witnesses Services
- £121,405k to the Police Force
- £800k to the Capital Programme
- £915k to Earmarked Reserves
- £680k from General Reserves

2.2 The PCC is asked to note that the 2014/15 budget is based on the approved 1.997% increase in precept for 2014/15.

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 2014/15 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 2014/15 budget will be brought to the PCC in 2014/15.

2.6 The PCC is asked to approve borrowing of up to £760k can be taken out to fund the capital expenditure in 2014/15.

2.7 The PCC is asked to allocate £1,729k of Capital Budgets to the Chief Constable to deliver schemes on behalf of the PCC.

2.8 The PCC is asked to note that the Capital Plans do not allow for the financing or costs of any New HQ or the Agile Project and specific business cases will be drawn up for the PCC's agreement with the financial implications as appropriate.

3. Planning and Funding Assumptions

3.1 The current Comprehensive Spending Review (CSR) was issued in October 2010 with further detail being released in December 2010 which gave detail around funding for the four years from 2011/12 to 2015/16.

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%)

3.3 Over the 4 years detailed above the Main Government Grant(s) received for policing in Cleveland have reduced by £17.8m 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 4 year period, to £19.2m. **In real terms, given the effects of inflation this equates to around a £28m reduction in spending power on the Police Service within Cleveland over just 4 years.**

3.4 This reduction over 4 years equates to an 18% cash reduction in funding from the government which in real terms equates to a 26% reduction.

3.5 Government Funding for 2014/15
The Home Office announced in June 2013 that the overall Police Budget would reduce by 3.3% between 2013/14 and 2014/15. This percentage reduction was confirmed with the draft grant settlement that was announced on the 18th December 2013. However due to a number of top slices the cash cuts received by each PCC totalled a significantly higher reduction of 4.8%.

3.6 On top of the £50m 'top slice' for the 'Innovation Fund' and the £2m for the National Police Co-ordination Centre, were for the following:

IPCC Transfer
In September 2013 the Home Secretary wrote to policing bodies following a request for views on the transfer of resources to the Independent Police Complaints Commission (IPCC) to deal with all serious and sensitive cases involving the police. The letter confirmed that a "shift in resources [would] be financial rather than involving personnel."

In 2014/15 £18m will be 'top sliced' for the IPCC in resource funding. £0.8m from the wider Home Office budget in 2013/14 will be provided to help with transition costs as well as a further £10m in capital in 2014/15. No announcements have been made in relation to future years however it would appear that this will continue into both 2015/16 and 2017/18 with further 'top slicing' from funding available to PCC's taking place.

Force Inspections
£9.4m will be top sliced to fund a new annual programme of all force inspections. This was initially announced by the Home Secretary on 7 November as part of her announcements marking the one-year anniversary of PCCs.

Her speech outlined that HMIC were developing proposals to enable the public to see whether their force is performing 'well or badly' when it comes to cutting crime and providing value for money. This work has now been brought forward more quickly than expected resulting in the 'top slice' for 2014/15

Direct Entry Schemes
Direct entry schemes to the police at Inspector and Superintendent level will be funded through a £2.8m 'top slice' in 2014/15. This funding will cover the initial salaries of officers and their course. The Home Office have said that they believe covering salaries will provide an incentive for forces to participate. This would also have been unaffordable by the College

Capital City Grant
£2.5m will be 'top sliced' to fund the 2014/15 Capital City Grant for the City of London. This follows a bid from the City. The grant covers the additional

policing demands that arise through planned and unplanned events plus functions that the City carries out where there is a national interest, such as policing the Old Bailey

3.7 **In total this £84m of 'top slicing' of funds has removed around £900k from the funding Cleveland would have received in 2014/15 had these 'top slices' not taken place.**

3.8 Government Funding for 2015/16
It was announced in June 2013 that the overall funding available to policing would reduce by £272m or 3.2% in 2015/16. Since then the Autumn Statement in December 2013 indicated that the Home Office budget would reduce by a further £113m in 2015/16.

3.9 While no announcements have been made in relation to how much of this additional £113m will result in cuts in funding available to PCC's it is prudent to assume that some will. This combined with further expectations of 'top-slicing' in 2015/16 would suggest that the Government Grant available to PCC's in 2015/16 will fall by around 5% in cash terms. Based on this the LTFP assumes a further £4.5m cut in government grant will occur in 2015/16.

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 is due in 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 2014/15 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 in both 2016/17 and 2017/18.

3.12 The current forecasts for Government Funding across the next 4 years, in comparison to the amount for 2013/14, are therefore:

	Actual	**Actual**	**Forecasts**		
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Funding	£000s	£000s	£000s	£000s	£000s
Police Grant	(50,249)	(49,443)	(46,971)	(45,797)	(44,652)
Community Safety Funding	(1,698)	0	0	0	0
RSG/National Non Domestic Rate	(42,300)	(40,313)	(38,297)	(37,340)	(36,406)
Government Grant Funding	**(94,247)**	**(89,756)**	**(85,268)**	**(83,137)**	**(81,058)**

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. The assumption throughout this plan for planning purposes is that this element will continue to increase at a rate of 2% per annum.

3.15 From April 2013 support for council tax was localised. This resulted in a change from a Council Tax benefits scheme that was funded nationally, being replaced by a Council Tax Support scheme that was managed locally. This locally managed scheme also had 10% less funding available to it than the amount that was required to fund the previous benefits scheme.

3.16 As a precepting authority the PCC will receive a grant of £6,868k in 2014/15 as a result of this change of policy. This was 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.

3.17 Despite a small increase in this grant in 2014/15 of £24k (or 0.3%) the current plan assumes that the current level of grant remains unchanged throughout the plan.

3.18 This grant equates to nearly 20% of what would have previously been received through the Precept for the PCC for Cleveland. If it had continued to be collected through the precept it would have been subject to the same increases in precept that the remainder of the precept has been. Based on the 2% increase in precept for 2014/15 the PCC will in effect be receiving a further real term cut in funding of £113k.

3.19 It is worth noting that the more deprived areas within the country will now be receiving a larger proportion, of what used to be their precept income, from this Localisation of Council Tax Grant. It therefore follows that if this grant does not increase in line with precept increases then those PCC's in the most deprived areas lose out in terms of funding to a greater extent than the more affluent areas who receive a smaller proportion of their funding from this grant.

3.20 The final area of 'precept' funding is in the form of the Council Tax Freeze grant. The PCC is currently in receipt of £800k per annum as a result of the decision of the then Police Authority to freeze council tax levels in 2011/12. The 4 year grant for £800k per annum has been extended into a 5th year. Based on current information this grant will not be available for the 2016/17 financial year.

3.21 The current forecasts around the funding for precept and precept related items over the next 4 years, in comparison to 2013/14, are as follows:

	Actual	Actual	Forecasts		
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Funding	£000s	£000s	£000s	£000s	£000s
Precept (Assumed 2.0% increase p.a.)	(27,608)	(28,797)	(28,802)	(29,378)	(29,966)
2011/12 Council Tax Freeze Grant	(800)	(800)	(800)	0	0
Council Tax Support Grant	(6,848)	(6,868)	(6,868)	(6,868)	(6,868)
Government Grant Funding	**(35,256)**	**(36,465)**	**(36,471)**	**(36,247)**	**(36,834)**

3.22 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.

3.23 In terms of Specific Grants the PCC is forecast to receive £5,619k 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.

3.24 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.

3.25 These sources of income and funding are forecast to provide between £2.2m and £2.5m across the life of the plan.

3.26 For the first time in 2014/15 the PCC will received funding to commission Victims and Witnesses Services and also contribute towards restorative justice initiatives. PCC's will become responsible for local commissioning and provision of services from October 2014 with additional commissioning responsibilities starting in April 2015 when some nationally commissioned services will end. The exact funding for this area is not expected to be confirmed until April 2014, however for the purposes of setting the budget for 2014/15 and for planning for service commencement the Ministry of Justice have provided PCC's with expected funding levels and these are set out in the table below along with a summary of the entire funding expected to be available to the PCC in 2014/15 and projections for the next 3 years:

	Actual 2013/14	Actual 2014/15	Forecasts 2015/16	2016/17	2017/18
Funding	£000s	£000s	£000s	£000s	£000s
Government Grant	(94,247)	(89,756)	(85,268)	(83,137)	(81,058)
Council Tax Precept	(27,608)	(28,797)	(28,802)	(29,378)	(29,966)
Council Tax Freeze Grant	(800)	(800)	(800)	0	0
Council Tax Support Grant	(6,848)	(6,868)	(6,868)	(6,868)	(6,868)
Funding for Net Budget Requirement	**(129,503)**	**(126,221)**	**(121,739)**	**(119,383)**	**(117,892)**
Specific Grants	(5,594)	(5,619)	(5,619)	(5,619)	(5,619)
Witness and Victims Funding	0	(180)	(599)	(599)	(599)
Partnership Income/Fees and Charges	(2,362)	(2,233)	(2,441)	(2,336)	(2,367)
Total Funding	**(137,459)**	**(134,253)**	**(130,397)**	**(127,937)**	**(126,477)**
%age change in Total Funding	0.6%	-2.3%	-2.9%	-1.9%	-1.1%

3.27 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.

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. 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.

4.4 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 £45k in setting his budget for 2014-15. This is a further reduction of 4.8% over the 2013-14 budget and is double the reduction in overall funding available to the PCC in 2014-15 in comparison to 2013-14.

4.6 The budget provides for the office to be run with 9.49FTEs throughout the planning period, excluding the PCC.

4.7 Further details are provided at Appendix A.

4.8 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 Victims and Witnesses funding.

4.9 This area of expenditure will be developed and further details and allocations will be made in the coming months, and throughout the 2014/15 financial year, as appropriate.

4.10 Corporate Budgets
In line with the agreement of the Home Secretary, and as per the requirements of the Police Reform and Social Responsibility Act 2011, there will be a statutory transfer of staff from the employment of the PCC to the employment of the Chief Constable from the 1st April 2014. As part of this transition and the changes to governance that will occur from the 1st April 2014 there are certain budgets and responsibilities that either needs to sit with the PCC or which have been agreed to sit 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.

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

	Actual	Actual	Forecasts		
	2013/14	2014/15	2015/16	2016/17	2017/18
Corporate Costs	£000s	£000s	£000s	£000s	£000s
Staff Pay	178	180	180	185	190
Non Pay Expenditure	59	60	45	45	45
PFI Action Stations	5,065	5,110	5,120	5,200	5,285
PFI Urlay Nook	1,659	1,710	1,735	1,790	1,845
Asset Management	2,426	2,100	1,950	1,900	1,850
Total Corporate Costs	**9,387**	**9,160**	**9,030**	**9,120**	**9,215**
%age Change in Expenditure	6.7%	-2.4%	-1.4%	1.0%	1.0%

4.12 The 4.3 FTE staff that are included within this area were previously under the 'direction and control' of the Chief Constable.

4.13 Police Force

The vast majority of the funding available to the PCC is being provided to the Police Force and they have been allocated a budget of £121,405k for 2014/15.

4.14 The summary of how this is forecast to be spent in 2014/15, in comparison to the 2013/14 (revised) budget and the forecasts for the next 3 years are as per the table below:

	Actual	Actual	Forecasts		
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Police Force Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Pay					
Police Pay	72,819	70,558	70,290	73,292	75,585
Police Overtime	1,234	1,354	1,624	1,354	1,444
Police Community Support Officer Pay	4,885	4,416	4,084	4,263	4,362
Staff Pay	7,419	6,441	5,937	6,263	6,450
Pay Total	**86,358**	**82,769**	**81,935**	**85,172**	**87,841**
Major Contracts Total	**22,174**	**22,426**	**20,895**	**21,339**	**21,868**
Non-Pay Budgets					
Other Pay and Training	277	276	285	285	285
Injury and Medical Police Pensions	1,700	2,360	1,955	1,990	2,050
Premises	3,939	3,811	3,855	3,520	3,590
Supplies and Services	5,937	5,645	5,470	5,270	5,602
Transport	1,753	1,762	1,815	1,845	1,900
External Support	2,265	2,356	2,170	2,210	2,265
Non-Pay Total	**15,871**	**16,210**	**15,550**	**15,119**	**15,691**
Total Planned Force Expenditure	**124,402**	**121,405**	**118,380**	**121,630**	**125,400**
%age Change in Expenditure	-3.3%	-2.4%	-2.5%	2.7%	3.1%

Expected Funds available from PC(	**124,402**	**121,405**	**118,380**	**115,500**	**114,000**

Unidientifed Savings	**(0)**	**0**	**0**	**(6,130)**	**(11,400)**

4.15 In being able to achieve an expenditure plan of £121.4m the Force have identified circa £6.5m of savings that have been removed from the budget.

4.16 The approach that the Force is taking towards meeting the financial challenge was incorporated in a document that was endorsed/approved by the PCC in November 2013.

4.17 Further details of the financial plans of the Force will be contained within a separate report from the Chief Constable.

4.18 <u>Reserves</u>
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:

	Actual	Actual	Forecasts		
	2013/14	2014/15	2015/16	2016/17	2017/18
Funding	£000s	£000s	£000s	£000s	£000s
Total Funding	(137,458)	(134,253)	(130,397)	(127,937)	(126,477)
%age Change in Funding	0.6%	-2.3%	-2.9%	-1.9%	-1.1%
Office of the PCC Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Total Planned Expenditure	**930**	**885**	**855**	**850**	**850**
%age Change in Expenditure	-22.6%	-4.8%	-3.4%	-0.6%	0.0%
PCC Initiatives/Victims and Witness	£000s	£000s	£000s	£000s	£000s
Total Planned Expenditure	**1,698**	**1,768**	**1,638**	**2,137**	**2,008**
%age Change in Expenditure	n/a	4.1%	-7.3%	30.5%	-6.0%
Corporate Costs	£000s	£000s	£000s	£000s	£000s
Total Corporate Costs	**9,387**	**9,160**	**9,030**	**9,120**	**9,215**
%age Change in Expenditure	6.7%	-2.4%	-1.4%	1.0%	1.0%
Police Force Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Total Planned Force Expenditure	**124,402**	**121,405**	**118,380**	**121,630**	**125,400**
%age Change in Expenditure	-3.3%	-2.4%	-2.5%	2.7%	3.1%
	£000s	£000s	£000s	£000s	£000s
(Surplus)/Deficit	**(1,040)**	**(1,035)**	**(495)**	**5,800**	**10,995**
Planned Transfers to/(from) General Fund	0	(680)	0	0	0
Contribution to Capital Programme	0	800	455	460	465
Planned Transfers to Earmarked Reserves	1,040	915	40	40	40
Net (Surplus)/Deficit After Reserves	**(0)**	**0**	**0**	**6,300**	**11,500**
General Reserves	£000s	£000s	£000s	£000s	£000s
General Fund Balance c/f	**7,025**	**6,345**	**6,345**	**6,345**	**6,345**
Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,441	1,378	1,349	1,349	1,349
PCSOs	158	145	132	132	132
Police Staff - Police Force	215	184	166	166	166
PCC/Corporate Staff	15	15	15	15	15
Assumptions					
Staff Pay Increases	1.0%	1.0%	1.0%	2.0%	2.0%
Police Pay Increases	1.0%	1.0%	1.0%	2.0%	2.0%
Precept Increases	2.0%	2.0%	2.0%	2.0%	2.0%
Government Grant Reductions (Cash Basis)		-4.8%	-5.0%	-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 2014/15 budget and LTFP. The PCC's attention is drawn to the progress that has been made in being able to demonstrate a balanced plan for the next 2 years.

5.3 As mentioned earlier, the delivery of a balanced budget for 2014/15 will require £6.5m of savings that have been removed from the Forces' budget to be delivered. At this stage a further £5.1m of savings has been factored into the balanced position for 2015/16. While some of these will be delivered as part of the revised staffing structures 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 From 2016/17 there is a significant amount of uncertainty about future funding levels, however if current projections should materialise then significant savings will need to be delivered and the planning for this should begin now.

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 £1,225k in terms of Capital Grant in 2014/15 and therefore 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 to the way that capital is to be funded going forward.

6.4 In summary the changes approved for the following:

- To contribute the final under spend on the PCC's budget and the over recovery of income in 2013-14 to a capital earmarked reserve. This is currently expected to total circa £585k.

- To contribute the £421k under spend from 2012-13, which is currently sat within the General Fund, to the capital earmarked reserve.

- To contribute the £1,126k from the risk earmarked reserve to the capital earmarked reserve.

- 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.

- To contribute £350k of the council tax collection surplus that has arisen in 2013-14, but will be received in 2014-15, is added to capital funding.

6.5 As a result of the above 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	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Earmarked Reserve/Funding b/f	**1,927**	**615**	**899**	**600**	**436**
Capital Grant	1,188	1,225	1,200	1,200	1,200
Contribution from Revenue	678	800	455	460	465
Capital Receipts	40	100	100	100	100
Supported Capital Borrowing	760	760	760	760	760
Projected In-year funding Available	**2,666**	**2,885**	**2,515**	**2,520**	**2,525**
2013/14 Capital Programme	4,850				
Expected Carry Forwards	-872	872			
Police Force New Capital Schemes		1,729	2,814	2,684	1,556
Total Capital Programme	**3,979**	**2,601**	**2,814**	**2,684**	**1,556**
Earmarked Capital Reserve/Funding c/f	**615**	**899**	**600**	**436**	**1,405**

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

6.7 As a result of the proposed changes 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**

6.8 As can be seen from the above table over £500k will be removed from these budgets over the next 4 years to help meet the savings required to balance the budget and therefore reduce the need to make these savings from front line services.

6.9 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 2014/18' 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 then 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 2014/15 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 2014/15 and will be reported to the PCC on a quarterly basis.

8. Conclusion

8.1 The proposed 2014/15 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

APPENDIX A

Office of the PCC Budget 2014/15

2010/11 Budget	2011/12 Budget	2012/13 Budget	Police Authority/PCC Budget	2013/14 Budget	Movement to 2014/15 Budget	2014/15 Budget
£	£	£	Category of Spend	£	£	£
523,340	500,210	549,282	Staff Pay and Allowances	590,000	(5,000)	585,000
300	4,300	200	Other Pay and Training	5,300	0	5,300
1,000	1,000	1,000	Premises	1,000	0	1,000
780,630	745,828	643,297	Supplies and Services	326,700	(40,000)	286,700
19,000	14,000	7,000	Transport	7,000	0	7,000
(500)	(643)	0	Miscellaneous Income	0	0	0
1,323,770	**1,264,695**	**1,200,779**	**Total Budget**	**930,000**	**(45,000)**	**885,000**
			Reduction on Previous Year			4.8%
			Reduction since PCC took Office			26.3%
			Cumulative Reduction over CSR Period			33.1%

The Office of the PCC is forecast to have 9.49 FTEs in 2014/15, excluding the PCC, which is the same as 2013/14 despite the additional responsibilities that will be taken on by the PCC in 2014/15 in relation to the commissioning of Victims and Witnesses services. As well as delivering the statutory functions of the office of the PCC these employees will also be enabling the delivery of the objectives within the Police and Crime Plan.

The PCC has been able to make cash savings of £45k in setting the budget for 2014/15. This equates to 4.8% which is double the 2.4% reduction in the overall funding available to the PCC in 2014/15 in comparison to 2013/14. In line with last year the PCC is therefore prioritising the funds available to provide frontline services.

The PCC has now made recurring cash savings of £315k during his first 2 years in office, this is a reduction in his budget of 26.3% and is the equivalent of 10 PCSOs.

APPENDIX B

PCC Savings Summary for 2014/15 and 2015/16	2014-15	2015-16	Savings over the 2 years
	£k	£k	£k
Savings Summary PCC and Corporate Costs			
Office of PCC	45	30	75
Corporate Costs			
Minimum Revenue Provision	180	35	215
Interest Payable	100	65	165
Printer Lease	45		45
	325	100	425
Arrest Referral Services/PCC Initiatives	400	375	775
Total PCC and Corporate Savings	**770**	**505**	**1,275**
Savings Summary - Police Force			
Police Pay			
Reduction in Police Officer Nos. through implementation of Orbis	3,150	1,450	4,600
Implementation of National Changes to Police Officer T&Cs	350	340	690
	3,500	1,790	5,290
PCSO's Pay			
PCSO vacancies deleted and ER/VRs	390	390	780
Lower Employer pension contribution rates from 1st April 2014	60		60
	450	390	840
Staff Pay			
Staff vacancies deleted and ER/VRs	1,085	630	1,715
Lower Employer pension contribution rates from 1st April 2014	80		80
	1,165	630	1,795
Non-Pay Savings			
Contract and Procurement Savings	800	1,900	2,700
Estates Rationalisation	120	70	190
Professional Fees	300		300
Other non-pay savings	135	100	235
Collaboration	75	230	305
Mounted non pay	40		40
	1,470	2,300	3,770
Police Force Overall Savings	**6,585**	**5,110**	**11,695**
Total Savings	**7,355**	**5,615**	**12,970**

Report of the Chief Financial Officer for the Police and Crime Commissioner (PCC) to the PCC
17th February 2014

Status: For Decision

Treasury Management and Prudential Indicators 2014/18

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 2014/15. The code states that Prudential Indicators for Treasury Management should be considered together with the Annual Investment Strategy for 2014/15. 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 2014/15.

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 2014/15 the actual cost in this area is expected to be £6,121k; however of this, £4,222k is attributable to our PFI's (£3,162k of interest charges and £1,060k of MRP). These PFI charges are essentially covered by separate PFI Grants totalling £4,109k.

	2014/15	**2015/16**	**2016/17**	**2017/18**
Financing Costs to Net Revenue Streams	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Minimum Revenue Provision (MRP)	2,157	1,901	1,950	2,333
Interest Payable on Borrowing	4,014	3,739	3,610	3,593
Interest Receivable	(50)	(100)	(50)	(50)
Financing Costs	**6,121**	**5,540**	**5,509**	**5,876**
Net Revenue Stream	**126,221**	**121,739**	**119,383**	**117,892**
Ratio %	4.8%	4.6%	4.6%	5.0%

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 2014/15 will be 1.5% of our Net Revenue Stream, as per the table below:

Financing Costs to Net Revenue Streams (Excluding PFI)	**2014/15** Estimate	**2015/16** Estimate	**2016/17** Estimate	**2017/18** Estimate
	£000	£000	£000	£000
Minimum Revenue Provision (MRP)	1,097	1,102	1,107	1,111
Interest Payable on Borrowing	852	794	749	686
Interest Receivable	(50)	(100)	(50)	(50)
Financing Costs	**1,899**	**1,796**	**1,805**	**1,747**
Net Revenue Stream	**126,221**	**121,739**	**119,383**	**117,892**
Ratio %	1.5%	1.5%	1.5%	1.5%

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	**2014/15** Estimate	**2015/16** Estimate	**2016/17** Estimate	**2017/18** Estimate
	£	£	£	£
Band D Impact	(1.38)	(2.02)	(0.10)	1.23

The PCC has approved a 1.997% increase in Precept for 2014/15 and the level of Council Tax for a Band D property will increase by £3.96. However as a result of the changes to the way that the PCC is funding capital expenditure in 2014/15 and beyond 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 £1.38 less per Band D property is being set aside for borrowing costs than was the case in 2013-14.

3.6 Prudence

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

Capital Expenditure	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Capital Expenditure	1,729	2,814	2,684	1,556
PFI Capital Expenditure	356	804	955	483
Total Capital Expenditure	**2,085**	**3,618**	**3,639**	**2,039**
Funded By:				
Gross Borrowing	760	760	760	760
PFI Borrowing	0	0	0	0
Other Capital Resources	1,325	2,858	2,879	1,279
%age of Expenditure funded by Borrowing	36.5%	21.0%	20.9%	37.3%

The level of borrowing need 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.

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	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Opening Capital Financing Requirement	**17,950**	**18,072**	**18,189**	**18,301**
Supported Borrowing	760	760	760	760
MRP on Supported Borrowing	(638)	(643)	(648)	(652)
Closing Capital Financing Requirement	**18,072**	**18,189**	**18,301**	**18,409**
Unsupported borrowing to fund Capital Expenditu	9,546	9,546	9,546	9,546
PFI Borrowing	34,978	34,978	34,978	34,978
Total CFR Base on which MRP is calculated	**62,596**	**62,713**	**62,825**	**62,933**
MRP on Unsupported Borrowing	(1,593)	(2,052)	(2,511)	(2,969)
MRP on PFI	(7,372)	(8,171)	(9,014)	(10,236)
Total CFR Base for borrowing purposes	**53,631**	**52,490**	**51,301**	**49,728**

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 2014/15 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.

Net Borrowing and the Capital Financing Requirement (CFR)	**2014/15** Estimate	**2015/16** Estimate	**2016/17** Estimate	**2017/18** Estimate
	£000	£000	£000	£000
Borrowing	20,600	19,260	18,160	16,416
PFI Borrowing	27,606	26,807	25,964	24,742
Investments	(4,000)	(4,000)	(4,000)	(4,000)
Net Borrowing	**44,206**	**42,067**	**40,124**	**37,158**
Total CFR Base for borrowing purposes	**53,631**	**52,490**	**51,301**	**49,728**

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 within this limit has been increased in order to allow for any potential borrowing as a result of forthcoming decisions around the potential relocation of Cleveland Police Headquarters.

- 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. Within this, 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	**2014/15** Estimate	**2015/16** Estimate	**2016/17** Estimate	**2017/18** Estimate
	£000	£000	£000	£000
Borrowing	20,600	19,260	18,160	16,416
PFI Borrowing	27,606	26,807	25,964	24,742
Provision for Temporary Borrowing	12,000	12,000	12,000	7,000
	60,206	**58,067**	**56,124**	**48,158**

Operational Boundary for External Debt	**2014/15** Estimate	**2015/16** Estimate	**2016/17** Estimate	**2017/18** Estimate
	£000	£000	£000	£000
Borrowing	20,600	19,260	18,160	16,416
PFI Borrowing	27,606	26,807	25,964	24,742
Provision for Temporary Borrowing	5,000	5,000	5,000	5,000
	53,206	**51,067**	**49,124**	**46,158**

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	**2014/15** Estimate	**2015/16** Estimate	**2016/17** Estimate	**2017/18** 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	2014/15	2015/16	2016/17	2017/18
	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	2014/15		2015/16		2016/17		2017/18	
	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	2014/15	2015/16	2016/17	2017/18
	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 2014/2015 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 4 years, the impact will be relatively small. The budget set for interest receivable in 2014/15 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 £5 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £7 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 2014/15.

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

APPENDIX A

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 £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%.

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.

Appendix B

Counterparty List

<u>Specified Investments:</u>
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

<u>Unspecified Investments</u>:

- 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

APPENDIX C

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 **S**ecurity – **L**iquidity – **Y**ield 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

17th February 2014

Status: For Decision

Minimum Revenue Provision 2014/15

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 2014/15, which involves no change from the 2013/14 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 has increased significantly over the last 5 years with the PCC having to set aside nearly £1.4m in 2013/14 (which is 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 current year it is forecast that the MRP charge will reduce by over £250k over the next 4 years.

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 asses 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.

Appendix 2

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.