

Enquiries to: Mrs P Coulter
Telephone: 01768 217734

Our reference: PC

Date 01 Feb 2019

CUMBRIA POLICE & CRIME COMMISSIONER'S PUBLIC ACCOUNTABILITY CONFERENCE

The Police and Crime Commissioner's Public Accountability Conference will take place on **Wednesday 20th February 2019** in Conference Room **3**, Police Headquarters, Carleton Hall, Penrith, at **10.00am**.

The purpose of the Conference is to enable the Police and Crime Commissioner to hold the Chief Constable to account for operational performance.

V Stafford
Chief Executive

Attendees:

Police & Crime Commissioner	- Mr Peter McCall (Chair)
OPCC Chief Executive	- Mrs Vivian Stafford
Joint Chief Finance Officer	- Mr Roger Marshall
Chief Constable	- Mrs Michelle Skeer

AGENDA

PART 1 – ITEMS TO BE CONSIDERED IN THE PRESENCE OF THE PRESS AND PUBLIC

1. APOLOGIES FOR ABSENCE

2. URGENT BUSINESS AND EXCLUSION OF PRESS AND PUBLIC

To consider (i) any urgent items of business and (ii) whether the press and public should be excluded from the Meeting during consideration of any Agenda item where there is likely disclosure of information exempt under s.100A(4) and Part I Schedule A of the Local Government Act 1972 and the public interest in not disclosing outweighs any public interest in disclosure.

3. QUESTIONS FROM THE PUBLIC

An opportunity (not exceeding 20 minutes) to deal with any questions which have been provided in writing within at least three clear working days before the meeting date to the Chief Executive.

4. DISCLOSURE OF PERSONAL INTERESTS

Attendees are invited to disclose any personal/prejudicial interest, which they may have in any of the items on the Agenda. If the personal interest is a prejudicial interest, then the individual should not participate in a discussion of the matter and must withdraw from the room unless a dispensation has previously been obtained.

5. MINUTES OF MEETING

To receive and approve the minutes of the Public Accountability Conference held on the 14th December 2018

6. CAPITAL BUDGET MONITORING 2018/19 – QUARTER 3 TO DECEMBER 2018

To receive & note the OPCC Capital Budget Monitoring Report – Quarter 3 to December 2018

7. CONSTABULARY REVENUE BUDGET MONITORING 2018/19 QUARTER 3 TO DECEMBER 2018

To receive & note the Constabulary Revenue Budget Monitoring Report – Quarter 3 to December 2018

- 8. COMMISSIONER'S REVENUE BUDGET MONITORING 2018/19 QUARTER 3 TO DECEMBER 2018**
To receive & note the OPCC Revenue Budget Monitoring Report – Quarter 3 to December 2018

- 9. TREASURY MANAGEMENT ACTIVITIES 2018/19 QUARTER 3 (OCTOBER TO DECEMBER 2018)**
To receive & note the OPCC Treasury Management Activities 2018/19 Report – Quarter 3 to December 2018

- 10. DECISION 001-2019 – CAPITAL STRATEGY 2019/20**
To receive, note and approve the Capital Strategy 2019/20, comprising:
 - A) CAPITAL STRATEGY 2019/20 (inclusive of prudential indicators 2019/20 to 2022/23**
 - B) CAPITAL PROGRAMME 2019/20 TO 2028/29**
 - C) TREASURY MANAGEMENT STRATEGY STATEMENT 2019/20 (inclusive of Investment Strategy, Borrowing Strategy, MRP Statement)**

- 11. DECISION 002/2019 - 2019/20 BUDGET AND MEDIUM TERM FINANCIAL FORECAST**
To receive, note and approve the Budget and Medium Term Financial Forecast reports
 - A) LOCAL GOVERNMENT ACT 2003 REQUIREMENTS REPORT**
 - B) BUDGET 2019/20 AND FINANCIAL FORECASTS 2020/21 TO 2022/23**
 - C) RESERVES STRATEGY 2019/20**

PART 2 – ITEMS TO BE CONSIDERED IN THE ABSENCE OF THE PRESS AND PUBLIC

(Any members of the public or press in attendance will be asked to leave the meeting room prior to consideration of these matters.)

- 12. DECISION 003-2019 - ESTATE AND FLEET STRATEGIES**
To receive, note and approve the Estate Strategy & Fleet Strategy (2019-2022) 2019 Annual Updates
 - A) ESTATE STRATEGY (2019 – 2022) 2019 ANNUAL UPDATE**
 - B) FLEET STRATEGY (2019 – 2022) 2019 ANNUAL UPDATE**

- 13. DECISION 004-2019 - ICT STRATEGY 2019 – 2022**
To receive, note and approve the ICT Strategy (2019-2022)

- 14. DECISION 005-2019 - PROCUREMENT STRATEGY 2019 – 2022**
To receive, note and approve the Procurement Strategy (2019-2022)

15. DECISION 007-2019 – Financial Regulations

To receive, note and approve the updated Financial Regulations

16. DECISION 008-2019 – Joint Procurement Regulations

To receive, note and approve the updated Joint Procurement Regulations

**CUMBRIA POLICE & CRIME COMMISSIONER
PUBLIC ACCOUNTABILITY CONFERENCE**

Minutes of the Public Accountability Conference held on
Friday 14th December 2018 at Carleton Hall, Penrith
at 09:30am

PRESENT

Police & Crime Commissioner - Mr Peter McCall (Chair)

Also present:

Chief Constable (Michelle Skeer);
Deputy Chief Constable (Mark Webster);
T/Assistant Chief Constable (Andy Slattery);
OPCC Chief Executive (Vivian Stafford);
OPCC Executive Support Officer (Paula Coulter) – taking minutes

In attendance:

Superintendent (Justin Bibby);
Superintendent (Gary Slater);
Superintendent (Rob O'Connor);
Constabulary Diversity Unit Manager (Sarah Dimmock);
Constabulary Communications Officer (Steven Ramshay);

PART 1 – ITEMS CONSIDERED IN THE PRESENCE OF THE PRESS AND PUBLIC

001. APOLOGIES FOR ABSENCE

There were no apologies for absence

002. QUESTIONS FROM MEMBERS OF THE PUBLIC

No questions had been received from members of the public prior to the meeting.

003. URGENT BUSINESS AND EXCLUSION OF THE PRESS AND PUBLIC

There were no items of urgent business to be considered.

004. DISCLOSURE OF PERSONAL INTERESTS

There were no disclosures of any personal interest relating to any item on the Agenda.

005. MINUTES

The Chair presented the minutes of the Public Accountability Conference held on the 26th September 2018 and on the 7th November 2018, these had previously been circulated with the agenda. The minutes were agreed as an accurate record and signed by the Chair.

RESOLVED, that, the

- (i) Minutes of the Public Accountability Conference held on the 26th September 2018 and on the 7th November 2018 be confirmed as a correct record and signed by the Chair.

006. THEMATIC PRESENTATION – A VISIBLE AND EFFECTIVE POLICE PRESENCE

The report were presented by Superintendent Rob O'Connor, the purpose of which was to provide assurance to the Police and Crime Commissioner that the Constabulary is working to maintain a visible and effective policing presence in communities by:

- understanding the current demand on resources
- ensuring that our Officers are in the right place at the right time to provide a responsive, professional service based on the demand
- delivering on the PCC's Policing Pledge and engaging with communities
- working collaboratively and with technology to maximise effectiveness
- showing how HMIC has judged our effectiveness

To the end of October 2018, The Command and Control Room dealt with 201,758 calls for service which resulted in 96,552 incidents.

Incidents involving Missing People have increased, and the time it take to locate and safeguard them has also increased.

Incidents involving people with mental health issues has increased by 20%, with 10% of all incidents involving a person who has mental health problems. The partnership landscape in relation to mental health is due to change in 2019.

Overall, as CCR takes on more demand, the time taken to deal with incidents by patrol officers has reduced slightly, as the way Officers are deployed has changed.

Crime related incidents up over the last 12 months by 8% to 28% (ASB down 6% and public safety incidents down by 1%); key areas are violence with injury (up 31%) sex offences (up 40%) and theft (up 9%).

New regulations, increases in the standards required for investigations and other actions taken, the rise in vulnerability, online and cybercrime all contribute to the increased time required for investigations

92% of officers are frontline – 47% of staff are frontline

The distribution of resources, based on HMIC Value for Money profiles show that the Constabulary spend more than national and MSG (most similar group) average on local policing

LOCAL FOCUS – Multi-agency early intervention and problem solving activity is initially focused in areas across the county that require prioritised attention for community safety. The purpose is to group operatives from public sector agencies together to:

- Build local capacity to intervene at earlier stages, preventing unsocial and criminal behaviour and making local people's lives better
- Reduce demand to the police service and to other agencies
- Provide a tiered approach – other agencies refer issues to the Hubs and multi-agency response delivered. Issues assessed – using the Hub Matrix A B and C to prioritise action
- Policing Pledge- additional firearms officers and improved delivery of ARVs across county to keep people safe
- Policing Pledge – additional investment in cybercrime officers & training / investment in skills to officers being planned and delivered, plus investment in the DMIU to ensure that best digital investigation service can be delivered; plus awareness campaigns

SUCCESS STORIES:-

Whitehaven

One key success was around a nominal from Manchester, who had come to Whitehaven to deal drugs and through targeted intelligence gathering he was arrested within a couple of weeks of arriving for possession with intent to supply class A drugs and a quantity of drugs seized alongside a mobile phone which confirmed he was selling drugs. He awaits a court appearance and is no longer in Cumbria which has successfully disrupted that area of criminality in the town. The team have provided both high visibility reassurance patrols and plain clothes intelligence gathering patrols alongside disruptive measures to target the perpetrators in each area.

Egerton Court

Egerton is a multi-agency project looking at tackling the issues for the long term. At the end of November a Welfare Hub will open on the Court which will be a base for statutory and third sector partners to work with local residents. Many of the residents have drug, alcohol and mental health issues. The project is being put forward as a nomination for the Tilley Awards (National problem solving awards). A great deal of partnership relationships and learning has come out of this project. Cumbria County Council have been a key partner.

Allerdale

5 Hub projects:

Hoarding project - County Council (Public Health) led

This project seeks to provide a formalised process for partners to follow when a case of hoarding is identified and maximises use of each agencies skills

CAPS (Community Alcohol Partnership) – Hub led

Project seeking to educate families around their consumption of alcohol, reducing the direct and wider effects of alcohol misuse within communities. Currently being trialled in Seaton.

Road Safety Campaign – Police led

Campaign bringing together partners to educate about road safety – Wigton

Communities Together – Hub led

Project run prior to summer holidays in Wigton, Silloth and Aspatria area to reduce ASB by teaching young people respect for their own communities

PAUSE- Externally led

Programme aimed at reducing families having repeat children taken into care

CITIZENS IN POLICING - The Citizens in Policing Team was formed in October 2017 and made up of 2 PC's and one Sergeant. Primarily tasked with setting up cadets and to increase Police Support Volunteers' and Specials. In December 2017 the Constabulary was approached by the founder of Mini Police and began plans to also introduce this across the county.

In March 2018, Mini Police was launched in 25 schools with a total of 510 Mini Police Officers. Selection to become a Mini Police school was based on a methodology which took into account engagement spots, size of the school, deprivation factors and rurality v urban location. Cumbria is the second largest county nationally for Mini Police numbers.

In April 2018 the Constabulary launched 5 cadet bases across the county with 100 cadets in total. In each unit the Constabulary met the national requirement of 25% vulnerability in each unit.

Mini Police follow a three term engagement strategy; Educational input (based around a key topic which either relates to the school term eg; fireworks safety or a dynamic response to a key crime trend eg; county lines. Next they have a community led aspect where the Mini Police identify a community issue they wish to tackle and then a reward element which relates to the educational input (eg; water safety for the summer term they had a visit from or to RNLI) Each Mini Police school has an assigned PCSO contact who help deliver and coordinate each aspect of the programme. Following the initial educational input by the PCSO, the Mini Police cascade their learning each term to the rest of the school.

The CiP team centrally coordinate all lesson plans and timetables for both cadets and mini police to support cadet leaders and PCSO's

It is estimated that the Constabulary have a total reach of at least 3,000 each term for Mini Police – this is via the total size of each Mini Police school, parents and teachers and the distribution of the Mini police newsletter

In May 2018 the Constabulary entered into a sponsorship deal with Lloyd MINI and have a branded CiP “Max the MINI” to support and promote the CiP strategy. The Constabulary have increased the amount of Police support Volunteers through a skills matching process; rather than apply for a specific role there is an expression of interest whereby key skills the volunteer has are identified and then skills matched across the force. The Constabulary are opening up previously “hidden” departments within the police to volunteers who have niche and specific skill sets eg economic crime and serious organised crime teams.

Impact on Neighbourhood policing

- Improved relationships between Mini Police schools and their PCSO’s
- Structured and standardised timetable of learning that supports the PCSO delivery for Mini Police
- Large reach capacity for Mini Police and having a positive influence on a new generation
- Non Mini police schools have teamed up with a Mini police school to cast further the learning
- PCSO’s/neighbourhood police officers are also involved in the cadet programme as volunteer leaders. This has strengthened their relationships and contact with a key age group
- Able to identify and implement diversionary methods to reduce ASB and crime amongst cadets (either as victim or suspect)
- Improved relationships between constabulary and community
- Peer influences from cadet to non-cadet having a positive effect

Following a discussion, the presentation was noted.

RESOLVED, that,

- (i) The presentation be noted;

007. THEMATIC PRESENTATION – RURAL CRIME

Superintendent Gary Slater presented the report. It was noted that Rural Crime is a niche part of the business, and is made up of 2 strategies that are very closely linked:-

Rural Affairs Strategy

- Farm Machinery, Plant and vehicle theft
- Livestock Offences
- Fuel Theft

- Equine Crime
- Fly Tipping
- Poaching

Wildlife Crime Policing Strategy

- Badger Persecution
- Raptor Persecution
- CITES
- Bat Persecution
- Freshwater Pearl Mussels
- Poaching

The strategies were launched in 2018 after significant work and research. First national documents addressing the issues around Rural and Wildlife Crime and provided the focus areas shown. Poaching is featured on both documents due to the fact it directly impacts on Deer but is also associated heavily with Rural Crime. The accountable strategy groups are tasked with taking forward the work in this area.

2018 Rural Crime Survey findings showed that:-

- The perception of policing in rural communities is poor, worse than in urban areas.
- Some of the most common concerns are not solely policing matters.
- Crime and fear of it is causing loss of confidence particularly among young people, families and farmers.
- Framers and rural-specific business are living with and in fear of crime.
- Ultimately, rural communities are not understood with services not matching need.

The survey was conducted by the National Rural Crime Network made up of 30 Police and Crime Commissioners and supported by a wide range of other bodies with a deep interest in community safety and rural affairs. Cumbria reversed the national trend by showing a reduction in the cost of rural crime.

Data Overview 2016/2017 – 2017/2018 showed that:-

- The cost of rural Crime in Cumbria fell by 25.5 % to £450K
- UK rise of 13.4% (NFU Nat Rural Crime Survey 2018)
- Reported rural Incidents reduced by 18% in last 12 months
- A third of theft offences occur in rural areas
- TUMV increased in all three Areas (50/50 split in locations – tools are the target).
- 70% of all KSIs are on rural roads
- Wildlife Crime is non-recordable under NCRS.
- 494 Intelligence reports have been submitted concerning wildlife crime or poaching.

Following a discussion, the presentation was noted.

RESOLVED, that,

- (i) The presentation be noted;

008. THEMATIC PRESENTATION – EQUALITY & DIVERSITY

The report was presented by the Constabulary Diversity Unit Manager Sarah Dimmock, the purpose of which was to provide the Commissioner with an update on how the Constabulary are meeting the general and specific duties under the Equality Act. This included:

- Information and a breakdown of Hate Incidents /Crimes including initiatives to encourage reporting
- Community Engagement
- Vulnerability issues and initiatives
- Organisational Change
- People and Culture

A hate incident is defined as “Any incident, which may or may not constitute a criminal offence, which is perceived by the victim or any other person, as being motivated by prejudice or hate.”

A hate crime is defined as “Any hate incident, which constitutes a criminal offence, perceived by the victim or any other person, as being motivated by prejudice or hate.”

Hatred motivations are incidents and crimes that have either been or perceived to have been motivated by hatred due to a person’s protected characteristics as defined in the Equality Act 2010.

It is important to understand that all hate crimes will be hate incidents, however, not all hate incidents will progress to become hate crimes. Some hate incidents that are reported may not constitute a criminal offence and, therefore, they will not be recorded as a hate crime. They will still be recorded as a hate incident; within Cumbria Constabulary our crime recording system will be utilised to do this, submitting a ‘hate incident – non crime’. By using this facility, it enables the Force to monitor and task any interventions that may still be appropriate for a hate incident, as well as monitor any emerging trends or repeat locations.

Initiatives to Encourage Reporting of Hate Crime/Incidents

- Use of Social Media to send key messages
- Media Campaigns
- On-line reporting of Hate Incidents
- Community Group Training
- 2018 ongoing work to introduce a texting reporting line
- Packs issued to victims of LGBT Hate Crime provided by The Constabulary’s LGBT Staff Association

Organisational change:-

- Monitor user satisfaction for specific crime types
- Carry out interviews with a random sample of victims
- Service recovery work is undertaken where appropriate
- The Constabulary is a pre-active member of the multi-agency Victims and Witnesses Group
- Equality Analysis is completed when developing policies
- No policy is published without Equality Analysis being completed

Following a discussion the report was noted.

RESOLVED, that,

- (i) The report be noted;

009. THEMATIC PRESENTATION – ALWAYS PUT VICTIMS FIRST

The report was presented by Superintendent Justin Bibby, the purpose of which was to reassure the Commissioner as to how the Constabulary are working with partners to support and protect victims; how they are supporting victims in line with the minimum standards set out in the Code of Practice for Victims; how they protect vulnerable victims from harm; how they ensure victims who are having a mental health crisis receive appropriate support; how they are measuring victim satisfaction and using the results to improve services for victims; and how they are addressing HMICFRS recommendations in relation to vulnerability and satisfaction.

The presentation showed how the Constabulary identify and work with vulnerable victims. A person is vulnerable if, as a result of their situation or circumstances, they are unable to take care of themselves or others from harm or exploitation.

All cases are assessed against the THRIVE methodology:

Threat

Harm

Risk

Investigative Opportunities

Vulnerability

Engagement opportunities

All officers are trained and understand the Thrive methodology, immediate safeguarding or practical advice is given.

The work of the multi-agency Safeguarding Hub was discussed, a number of agencies are involved in the process and is working very well.

The SPA line operates on a 24 hours basis, and provides help and support from a dedicated mental health professional for those experiencing mental health crisis.

A lot of work has been carried out between the Constabulary and the Commissioner's office to develop the Quality Assessment Framework, which has received national recognition from Baroness Newlove at the National Victim's Conference. A number of other forces have been to Cumbria to look at the QAF to share learning and to use it as best practice.

Following a discussion the report was noted.

RESOLVED, that,

- (i) The report be noted;

Meeting concluded at 12.10pm

Signed: _____

Date: _____

Capital Budget Monitoring 2018/19
Forecast as at 31 December 2018 to PAC 20 February 2019 (to COG 11 February 2019)

Summary at December 2019

The current forecast of net expenditure amounts to £6.052m compared to a revised budget of £8.800m. The variance amounts to a net forecast underspend on the capital programme of £266k (3.02%) and reported slippage to date of £2.482m (28.2%). A summary of the 18/19 program is presented below:

Summary of Budget Movement 2018/19	2018/19 £000s
Capital Budget 2018/19 (approved 14/02/18)	11,261
Impact of 2017/18 Outturn (approved 10/05/18)	(1,558)
New Schemes Approved/Drawdown	81
Budgets Changes - Approved	(984)
Approved Adjusted Budget 2018/19	8,800
Capital Expenditure Outturn 2018/19	6,052
Forecast Variation	(2,748)
Made up of:	
Budget Changes (Under)/Overspend (Table 2)	(266)
Slippage to 2018/19 (Table 3)	(2,482)
	(2,748)

Table 1	2018/19
Summary of Capital Budget	£000s
Capital Expenditure	
ICT Schemes	2,201
Fleet Schemes	987
Estates Schemes	2,697
Other Schemes	167
	6,052
Capital Financing	
Capital Receipts	0
Revenue Contributions	1,468
Capital Grants	575
Reserves	4,009
Borrowing	0
	6,052

Table 2	Changes
Forecast Variation summary	£000s
- ICT End User Hardware Replacements	(10)
- ICT Core Hardware Replacements	(144)
- Business Futures	(2)
- Body Worn Video	(2)
- Changes to National systems	(51)
- Vehicle Replacements	(91)
- Workington - Land Purchase	(13)
- Accelerated Recruitment	47
	(266)

Table 3					Total	% of Adjusted
Slippage	Qtr 1	Qtr 2	Qtr 3	Qtr 4	£000s	Budget
ICT Schemes	0	0	(1,133)		(1,133)	51%
Fleet Schemes	0	(209)	(140)		(349)	35%
Estates Schemes	0	0	(1,000)		(1,000)	37%
Other Schemes	0	0	0		0	0%
	0	(209)	(2,273)	0	(2,482)	41%

Recommendations

1. The Police and Crime Commissioner and Chief Constable are asked to note the current position in relation to the capital programme for 2018/19.
2. The Commissioner is specifically asked to approve recommendations R1 – R4 as set out on pages 2 and 3 of this capital update report.

Capital Budget Monitoring 2018/19

Forecast as at 31 December 2018 to PAC 20 February 2019 (to COG 11 February 2019)

ICT schemes

The approved ICT budget of £3.6m includes an element for rolling replacement of end user equipment and a larger element for the replacement of whole systems. The project to replace Origin/Oracle E-Business Suite (EBS) systems is proceeding more slowly than anticipated, which has resulted in the majority of the budget and associated financing in relation to this scheme being moved into 2019/20. The total slippage of £1.133m has been reflected in the 10-year capital programme presented elsewhere on this agenda.

R1) The Commissioner is asked to approve a new scheme of £47k for ICT equipment to support the accelerated recruitment of officers that has taken place in the current financial year. This scheme will be funded from the monies returned from other ICT schemes - £209k, mainly, Unified National systems - £51k and Core Hardware replacement - £144k. Budgetary provision has been made for replacement of a number of national systems that are being developed centrally. No expenditure is now anticipated in 2018/19, so the budget has been returned. Following firm orders and review of the Core Hardware replacement budget, it has now been possible to return £144k of budget that is no longer required. This is spread over a number of elements within the project, namely, servers, external consultants and Websense replacement.

R2) The Commissioner is asked to approve the transfer of £2k from the E-Business capital budget to increase the revenue consultant's budget for the project. Within this approved capital budget, there are provisions to cover project staffing/consultant resources. The resources requested to support this project is deemed to constitute revenue rather than capital expenditure and as such the budget is being requested to be transferred.

Slippage of £1,133k and net budget return of £209k equals the £1,342k variance as shown in appendix A

Fleet schemes

The fleet replacement budget for 2018/19 is £1.218m, of this approximately £987k of replacement vehicles have been ordered and almost £140k are in the early stages of procurement. The final specifications of the remaining vehicles are still to be agreed upon and with the timing delays between ordering and delivery the Fleet manager has advised that it would be prudent to slip £140k into 2019/20 as delivery of the remaining vehicles is not expected in this financial year. This slippage is reflected in the 10-year capital programme presented elsewhere on this agenda.

R3) The Commissioner is asked to approve the return of budget of £91k. This reflects two recommendations from the strategic vehicle group. Following a review of the vehicles within Mobile Support Group, and in order to make savings in the fleet, it is recommended that a written off vehicle is not replaced and removed from the 10 year programme (saving £40k in 18/19). Following a review of the Command Vehicles, it is recommended that one of the two vehicles is removed from the replacement programme and kept in its current condition until it is no longer economical to repair, at which time it will be removed from the fleet completely (saving £51k in 18/19).

Capital Budget Monitoring 2018/19

Forecast as at 31 December 2018 to PAC 20 February 2019 (to COG 11 February 2019)

Slippage of £349k and net budget return of £91k equals the £440k variance as shown in appendix A

Estates schemes

Of the £3.7m estates program budget, £3.3m is in relation to the Eden Deployment Centre building scheme, construction of which is now well underway. Payments have been made based on the surveyor's valuation, which have now fallen behind what was in the initial payment schedule. It should be noted that the original contract payment schedule is very indicative and is heavily dependent on variables such as the availability of raw materials, labour costs and weather conditions at critical points etc. At this time the project is still on track to be operational in autumn 2019, but the payment schedule has moved and been re-calculated. Based on the new figures budget of £1.0m (and associated financing) has been moved from 2018/19 to 2019/20. This slippage is reflected in the 10-year capital programme presented elsewhere on this agenda.

The remainder of the estates budget relates to smaller replacement equipment and is on target to be completed in 2018/19.

R4) The Commissioner is asked to note the return of £13k from the land purchase scheme in the west of the county. The project is nearing completion and firm orders have been placed for the remaining work.

Slippage of £1.0m and budget return of £13k equals the £1.013m variance as shown in appendix A

Other schemes

Other schemes cover cross cutting or operational programmes of work including the replacement of portable ballistic protective equipment (shields) and works to develop further the digital evidence transfer from the CCTV system.

The accelerated Recruitment scheme referred to in recommendation 1 is shown in this section as it is a cross cutting project. This gives rise to the overspend of £47k (funded from ICT underspends) as shown in this section in appendix A.

A detailed, project by project, analysis of the approved budget, spend to date and expected outcome is provided in **Appendix A** over the page.

Capital Budget Monitoring 2018/19

Forecast as at 31 December 2018 to PAC 20 February 2019 (to COG 11 February 2019)

Medium Term Capital Program

The table below provides a summary of the capital programme and associated capital financing over the medium Term four year period to 2021/22:

Summary of Capital Budget 2018/19 to 2021/22				
	2018/19	2019/20	2020/21	2021/22
	£000s	£000s	£000s	£000s
Capital Expenditure				
ICT Schemes	2,201	7,373	3,411	2,006
Fleet Schemes	987	1,054	2,241	996
Estates Schemes	2,697	3,264	1,865	5,825
Other Schemes	167	250	0	500
	6,052	11,942	7,517	9,326
Capital Financing				
Capital Receipts	0	0	2,033	154
Revenue Contributions	1,468	1,684	3,132	2,984
Capital Grants	575	5,796	1,076	364
Reserves	4,009	4,462	1,275	2,425
Borrowing	0	0	0	3,400
	6,052	11,942	7,517	9,326

Capital Budget Monitoring 2018/19

Forecast as at 31 December 2018 to PAC 20 February 2019 (to COG 11 February 2019)

Appendix A

Capital Budget 2018/19	Original Approved Budget £000s	Impact of 2018/19 Outturn £000s	New Schemes Approved £000s	Budget Changes Approved £000s	Approved Adjusted Budget £000s	Actual Expenditure to Dec-18 £000s	Forecast Capital Outturn £000s	Forecast Variation £000s
ICT Schemes								
ICT End User Hardware Replacements	340	0	0	0	340	86	101	(239)
ICT Infrastructure Solution Replacement	35	0	0	0	35	0	35	0
ICT Core Hardware Replacements	570	(132)	(23)	0	416	56	218	(198)
ICT Hardware ReplacementsRadio / ESN	50	12	0	0	62	0	0	(62)
Case and Custody	92	(3)	0	(50)	38	0	0	(38)
Digital Policing Project	261	44	0	0	305	10	170	(135)
Red Sigma	252	(43)	0	(207)	2	2	2	0
Hi Tech Crime Improvements (DMIU)	50	27	8	0	85	80	85	0
Control Room Futures	3,685	(1,720)	0	(71)	1,894	804	1,476	(417)
E Business	1,440	(70)	(25)	(95)	1,249	15	51	(1,198)
Body Worn Video	0	65	0	0	65	61	63	(2)
National ANPR	0	0	(28)	28	0	0	0	0
Unified National Systems	51	28	0	(28)	51	0	0	(51)
General Slippage	(1,000)	0	0	0	(1,000)	0	0	1,000
Total ICT Schemes	5,826	(1,792)	(68)	(423)	3,543	1,114	2,201	(1,342)
Fleet Schemes								
Vehicle Replacements - 17/18 & 18/19	1,208	67	99	11	1,385	123	945	(440)
Fleet - Ballistically Protected Vehicle	0	42	0	0	42	41	42	0
Total Fleet Schemes	1,208	109	99	11	1,428	165	987	(440)
Estates Schemes								
Eden Deployment Centre	3,503	(203)	0	0	3,300	1,134	2,300	(1,000)
Workington - Land Purchase	0	300	0	0	300	277	287	(13)
Flood works at HQ	0	10	0	0	10	10	10	0
Durranshill CCTV and Cell Call	50	0	0	0	50	8	50	0
Durranshill heat and Vent Plant	50	0	0	0	50	0	50	0
HQ Gas Suppression system	30	0	0	(30)	0	0	0	0
Total Estates Schemes	3,633	107	0	(30)	3,710	1,429	2,697	(1,013)
Other Schemes								
CCTV	29	(5)	0	0	24	0	24	0
ANPR	0	0	50	0	50	50	50	0
Portable Ballistic Protective Equipment	23	23	0	0	46	1	46	0
Business Analytics	542	0	0	(542)	0	0	0	0
Total Other Schemes	594	18	50	(542)	120	96	167	47
Total Capital Expenditure 2018/19	11,261	(1,558)	81	(984)	8,800	2,803	6,052	(2,748)

Constabulary Revenue Budget Monitoring 2018/19

Forecast as at 31 December 2018 to Public Accountability Conference 20 February 2019

Constabulary Summary at December 2018

The current forecast of net expenditure amounts to £118.073m compared to a revised budget of £117.427m. The variance amounts to a forecast overspend of £0.646m (0.55%) and is made up of a forecast overspend on expenditure budgets of £1.062m (0.86%) and increased income of £0.416m (6.83%). The forecast overspend has reduced by £0.103m compared to the forecast overspend reported as at the end of September 2018 of £0.749m.

It should be noted however that the overspend has been reduced through the agreed application of revenue budget reserves (budget support reserve and the injury pension reserve).

The Constabulary is continuing to look for ways in which the overspend can be managed during the remainder of the financial year. In the event that there is an overspend at the year end, it is proposed that the underspend on the capital budget for 2018/19 be used to fund the remaining deficit.

Description	Revised Budget 2018/19 £'000s	Forecast Expenditure / (Income) 2018/19 £'000s	Forecast (Under)/ Overspend 2018/19 £'000s	Forecast (Under)/ Overspend 2018/19 %	Forecast (Under)/ Overspend @ SEP-18 £'000s	Change from SEP-18 to DEC-18 £'000s
Constabulary Funding						
Police Officers	83,339	84,373	1,034	1.24%	998	36
Police Community Support Officers	3,131	2,852	(279)	-8.91%	(342)	63
Police Staff	20,973	21,175	202	0.96%	132	70
Other Employee Budgets	1,658	1,744	86	5.19%	(40)	126
Transport Related Expenditure	2,157	2,253	96	4.45%	94	2
Supplies & Services	10,076	10,001	(75)	-0.74%	106	(181)
Third Party Related Expenses	2,180	2,178	(2)	-0.09%	23	(25)
Total Constabulary Funding	123,514	124,576	1,062	0.86%	971	91
Income	(6,087)	(6,503)	(416)	6.83%	(222)	(194)
Total Constabulary Funding Net of Income	117,427	118,073	646	0.55%	749	(103)

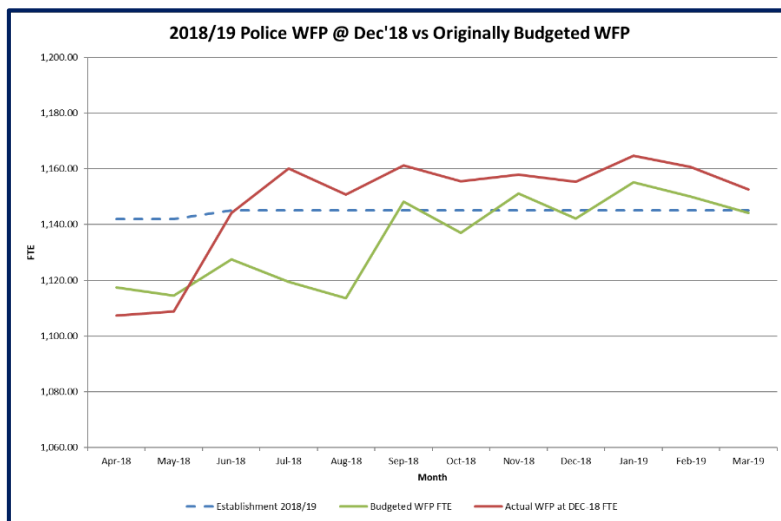
Constabulary Revenue Budget Monitoring 2018/19**Forecast as at 31 December 2018 to Public Accountability Conference 20 February 2019****Current Forecast**

The forecast constabulary overspend is largely as a result of a forecast overspend on police officer pay and allowances of £1.034m. The forecast overspend can be broken down into 3 main areas:

- **Workforce Plan Changes** - £543k relates partly to changes to the proposed HR Workforce Plan (WFP) to facilitate the earlier recruitment of the additional 25 police officers as pledged by the Commissioner in relation to the increase in council tax precept. In addition, the decision to operate approximately 20 officers over establishment for police officers for the remainder of the financial year to counterbalance the reduction in actual PCSO numbers (as they leave to join as regular police officers) and to safeguard against potential difficulty in recruiting as a result of the forthcoming changes in relation to the Police Education Qualification Framework (PEQF) effective from the 1st January 2020 have also contributed to the increase in expenditure. Expenditure on Police Officer Pay has been mitigated the agreed drawdown of the budget support reserve.
- **Ill Health / Injury Pensions** - £389k of the forecast overspend relates to a forecast increase in the number of individuals required to be retired under the police pension regulations increasing from 3 to 8. In each case the Constabulary must meet the capital ill health charge of two times annual salary (approx. £80k per retirement). The budget provision includes funding for three ill health retirements per year. A further, £25k of this overspend relates to an increase in payments of injury allowances due to payment of arrears following a successful appeal. Expenditure on ill health retirements has been mitigated by the agreed drawdown of a pensions reserve.
- **Police Officer Overtime** - £102k of the forecast overspend relates to pressure being experienced on overtime budgets in Territorial Policing command.

Constabulary Revenue Budget Monitoring 2018/19
Forecast as at 31 December 2018 to Public Accountability Conference 20 February 2019

The chart below illustrates the current HR WFP. The green line represents the HR WFP used for budget setting purposes, the red line represents the current HR WFP at December 2018. Where the red line is above the green line (which it is for the majority of the year), an overspend will result.



The overspend on police officers is being offset by reductions in expenditure for PCSO pay (£279k). The PCSO underspend arises as a result of changes to the profile of PCSO leavers and reductions in planned intakes. The WFP now sees the average PCSO numbers for the year being 86.75 FTE, some 8.25 FTE below the establishment of 95 FTE.

The police staff budget is forecast to overspend by £202k. The overspend on police staff has arisen as a result of the assumptions made with regard to when vacant posts are expected to be filled.

The other employee expenses budget is forecasted to overspend by £86k. This is largely as a result of the assumptions made with regards to the apprenticeship levy. The current assumption is that £206k of the levy paid in 2017/18 will now not be used and as a result will be lost and should therefore be accounted for in the current year. The assumptions in relation to the £306k anticipated levy for 2018/19 is that this will be used in future years and as such will be accrued into 2019/20. The net impact on 2018/19 is a budget saving of £100k. This saving is being offset by increases in training (£92k) and recruitment costs (£48k), mainly as a result of the accelerated recruitment of police officers together with costs of change management (£32k).

The transport related budget is forecasting to overspend by £95k, the primary reason for this is in relation to a forecast increase in fuel costs (£55k). When the original budget was constructed an above inflation increase of 5% was applied to the fuel budget. The actual increase seen at the pump between December 2017 and July 2018 was around 8%. In addition to fuel increases, there has been an increase in fleet mileage. The budgets for repair and maintenance (£29k)

Constabulary Revenue Budget Monitoring 2018/19

Forecast as at 31 December 2018 to Public Accountability Conference 20 February 2019

and hire cars (£43k) are also reporting pressure, which is being offset by reductions in car allowance and travel expenses payments (£40k).

The supplies and services budget is showing a forecast underspend of £75k. This is due, in the main, to forecast underspends on ICT, police doctors and surgeons and interpreters. These are somewhat offset by overspends on catering, uniform, custody and forensic costs.

The third party payments budget is forecast to underspend by £2k. Underlying this is a reduction to the TITAN collaboration for 2018/19, which is offset by additional charges for forensic collision investigation, SIO accreditation and contributions to NPCC.

Income receipts are forecast to be £416k higher than budgeted. This is across a number of headings including the reimbursement for specialist policing services (£256k), mutual aid (£142k) and sale of goods and assets (£63k). This additional income is somewhat offset by a shortfall in Firearms Licencing income, which follows a five year cycle (£98k).

Change in Forecast between September and December

As outlined above the forecast overspend position has reduced from the figure of £0.749m reported as at the end of September to the figure of £0.646m reported at the end of December. The main reasons for the reduction in forecast overspend of £0.103m can be summarised as follows:

- Police Officer Pay increase of £36k which is the net impact of changes to workforce planning assumptions during the quarter.
- PCSO Pay increase of £63k due to changes in the profile of leavers and new recruits.
- Police Staff Pay increase of £79k in respect of changes to the assumptions of when vacant posts will be filled.
- Other Employee expenses increase of £126k relating to changes in forecasts for agency staff (£35k), change management (£26k) and apprenticeship levy charges (£55k).
- Supplies & Services reduction £181k as a result of reduction in ICT costs (£115k), custody medical contract costs (£27k), uniform costs (£32k), catering (£12k).
- Third Party Payments reduction of £25k in respect of the contributions to North West ROCU (TITAN).
- Additional income of £194k in respect of income from the provision of specialist policing services (£124k) and mutual aid (£70k).

PCC Revenue Budget Monitoring 2018/19

Forecast as at 31 December 2018 to Public Accountability Conference 20 February 2019

PCC Budget Summary at December 2018

The current forecast of net expenditure amounts to £99.250m compared to a revised budget of £98.627m. The variance amounts to a forecast overspend of £623k (0.63%) and is made up of a forecast overspend of £646k (0.55%) in respect of Constabulary budget and a forecast underspend of £23k (0.12%) on budgets managed by the Commissioner.

Description	Revised Budget 2018/19 £'000s	Forecast Expenditure / (Income) 2018/19 £'000s	Provisional (Under)/ Overspend 2018/19 £'000s	Provisional (Under)/ Overspend 2018/19 %	Forecast (Under)/ Overspend @ SEP-18 £'000s	Change in Forecast SEP-18 to DEC-18 £'000s
Office of the Police and Crime Commissioner	723	674	(49)	-6.78%	(45)	(4)
Other PCC Budgets	(15,680)	(15,654)	26	-0.17%	87	(61)
Movements To / (From) Reserves	(3,843)	(3,843)	0	0.00%	0	0
Total OPCC Budgets	(18,800)	(18,823)	(23)	0.12%	42	(65)
Funding Provided to the Constabulary	117,427	118,073	646	0.55%	749	(103)
Net Expenditure	98,627	99,250	623	0.63%	791	(168)
External Funding	(98,627)	(98,627)	0	0.00%	0	0
Total	0	623	623		791	(168)

OPCC Budgets

The forecast underspend on the Commissioner's own budget arises principally as a result of underspends on staff in the office of the PCC (£38k), office supplies & services (£4k) and internal and external audit costs (£6k).

In respect of other budgets managed by the Commissioner the forecast overspend arises as a result of an increase to provide for future legal costs (£41k), increased premises costs (£17k), employee insurance premiums (£17k) and Grants (£9k) which are being offset by forecast, additional interest income from investments (£60k).

Constabulary Budgets

The forecast constabulary overspend is largely as a result of a forecast overspend on police officer pay and allowances of £1.034m. This overspend has arisen as a result of changes to the proposed HR Workforce Plan (WFP) to facilitate earlier recruitment of the additional 25 police officers as pledged by the Commissioner in relation to the increase in council tax precept in 2018. In addition, the decision to operate approximately 20 police officers over establishment for the remainder of the financial year to counterbalance the reduction in actual PCSO numbers (who have left to join as regular PCs) and to safeguard against potential difficulty in recruiting as a result of the forthcoming changes in relation to the Police Education Qualification Framework (PEQF), has further contributed to the overspend.

PCC Revenue Budget Monitoring 2018/19**Forecast as at 31 December 2018 to Public Accountability Conference 20 February 2019**

Other areas of the budget where overspends are forecast include police staff budgets £202k (reduced vacancies), other employee budgets £86k (recruitment and training) and transport related budgets £96k (fuel and repairs and maintenance). These overspends are being partially offset by under-spending in relation to PCSOs £279k, supplies and services £75k and additional income of £416k, from charges for special policing services and mutual aid.

The Constabulary budget monitoring report elsewhere on this agenda provides a more detailed explanation of the variances.

Police Property Act

At 31 December 2018 the balance on the Police Property Act fund was £37k. In December 2018, awards totalling £10k were made from the fund. Full details of the awards made are available on the PCC website at <https://cumbria-pcc.gov.uk/what-we-do/funding/successful-applicantsgrant-agreements/>



Peter McCall

Treasury Management Activities 2018/19

Quarter 3 (October to December 2018)

Public Accountability Conference 20 February 2019

Joint Audit Committee Meeting 20 March 2019

Purpose of the Report

The purpose of this paper is to report on the Treasury Management Activities (TMA), which have taken place during the period October to December 2018, in accordance with the requirements of CIPFA's Code of Practice on Treasury Management. TMA are undertaken in accordance with the Treasury Management Strategy Statement (TMSS) and Treasury Management Practices (TMPs) approved by the Commissioner in February each year.

Recommendations

The Commissioner is asked to note the contents of this report.

JAC Members are asked to note the contents of this report. The report is provided as part of the arrangements to ensure members are briefed on Treasury Management and maintain an understanding of activity in support of their review of the annual strategy.

Economic Background

The uncertain political situation surrounding Brexit has produced the prospect of divergent paths for UK monetary policy.

Due to the short time for a Brexit withdrawal deal to be agreed and the possibility of an extended period of uncertainty over the possible outcome, the treasury advisors (Arlingclose) have altered the assumption underlying the central forecast, prompting the forecast rises in Bank Rate to be pushed back.

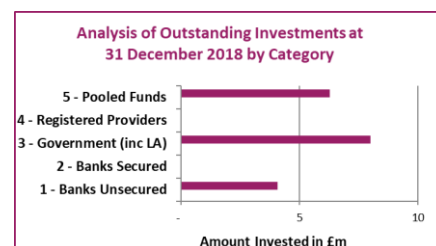
The Monetary Policy Committee bias towards tighter monetary policy remains, but policymakers are unlikely to raise Bank Rate unless there is a withdrawal arrangement and the prospect of a transition period.

Arlingclose's central case is for Bank rates to now only rise once in 2019 to 1.00% in December and then to 1.25% in June 2020.

TM Operations and Performance Measures

The Commissioners day to day TMA are undertaken in accordance with the TMSS. The TMSS establishes an investment strategy with limits for particular categories of investment and individual counterparty limits within the categories.

Outstanding Investments: As at 31 December 2018 the total value of investments was **£18.365m** and all were within TMSS limits. The chart below shows the outstanding investments at 31 December by category.



A full list of the investments that make up the balance of **£18.365m** is provided at **Appendix A**.

Investment Activity: During quarter 3 a total of two investments with a combined value of £4m were made within TM categories 1-3 (banks unsecured, banks secured and

Government). In addition to these there were regular smaller investments in category 5 (money market pooled funds).

Month	Number of Investments	Total Value of Investments £m
October 2018	0	0.00
November 2018	0	0.00
December 2018	2	4.00

There are also regular smaller investments made via money market funds (category 5 pooled funds) as part of cash flow management.

Non-specified investments: The TMSS sets a limit for investments with a duration of greater than 364 days at the time the investment is made (known as non-specified investments), this limit is £5m. At 31 December the Commissioner had no investments that met this definition.

Investment Income: The budget for investment interest receivable in 2018/19 is £75k. This budget was set prior to the bank of England base rate rise in November 2017. The current forecast against this target is that the actual interest will be in the region of £135k. Factors such as future interest rates available and investment balances will impact on the final result.

The average return on investment at the end of quarter 3 is 0.68%.

As a measure of investment performance, the rate achieved on maturing investments of over 3 months in duration is compared with the average BOE base rate.

The table below illustrates the rate achieved on the four maturing investments of over three months duration in quarter 3 compared with the average base rate for the duration of the investment.

Borrower	Value £m	Period (Months)	Actual Rate (%)	Average Base Rate (%)
Heleba	£2m	3.9	0.60%	0.70%
Nationwide	£2m	4.9	0.64%	0.71%
Leeds Building Society - Bond	£2m	29.6	0.68%	0.47%
Treasury bills	£2m	5.6	0.53%	0.71%

Cash Balances: The aim of the TMSS is to invest surplus funds and minimise the level of un-invested cash balances. The actual un-invested cash balances for the period October to December are summarised in the table below:

	Number of Days	Average Balance £	Largest Balance £
Days In Credit	91	8,216	496,109
Days Overdrawn	1	(333)	(333)

The largest un-invested balance occurred on the 19th December (£496k) whereby the receipt for the sale of Ulverston Police Station was received late in the day from the solicitors. In line with procedure,

any funds banked during the day are subject to checking by the bank and could be removed from our account again while any issues are resolved, which would have resulted in an overdrawn account. It is therefore normal practice that this cash is not invested into the liquidity select account and would have been left in the main fund account.

The largest/only overdrawn balance occurred on 31st December (£333) and was as a result of the monthly online banking charges being applied to the account being omitted from the cash flow forecast.

Prudential Indicators

In accordance with the Prudential Code, the TMSS includes a number of measures known as Prudential Indicators, which determine if the TMSS meets the requirements of the Prudential Code in terms of **Affordability, Sustainability and Prudence.**

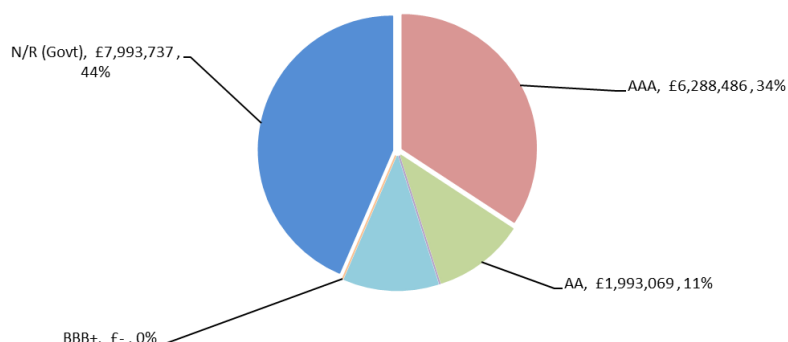
An analysis of the current position with regard to those prudential indicators for the financial year 2018/19 is provided at **Appendix B.** The analysis confirms that the Prudential Indicators set for 2018/19 are all being complied with.

Appendix A

Investment Balance at 31 December 2018

Category/Institution	Credit Rating	Investment Date	Investment Matures	Days to Maturity	Rate (%)	Amount (£)	Counterparty Total (£)
Category 1 - Banks Unsecured (Includes Banks & Building Societies)							
Svenska (Deposit Account)	AA	Various	On Demand	N/A	0.30%	1,993,069	1,993,069
Lloyds Bank	A+	24/12/2018	24/06/2019	175	1.000%	2,000,000	2,000,000
NatWest (Liquidity Select Account)	A+	31/12/2018	02/01/2019	O/N	0.20%	90,000	90,000
						4,083,069	4,083,069
Category 2 - Banks Secured (Includes Banks & Building Societies)							
						0	0
Category 3 - Government (Includes HM Treasury and Other Local Authorities)							
Lancashire County Council	NR	17/04/2018	16/04/2019	106	0.80%	2,000,000	2,000,000
East Dunbartonshire Council	NR	06/09/2018	06/03/2019	65	0.60%	2,000,000	2,000,000
Moray Council	NR	03/12/2018	03/06/2019	154	0.53%	2,000,000	2,000,000
HM Treasury Bills	NR	09/07/2018	07/01/2019	7	0.58%	1,993,737	1,993,737
						7,993,737	7,993,737
Category 4 - Registered Providers (Includes Providers of Social Housing)							
None						0	0
						0	0
Category 5 - Pooled Funds (Includes AAA rated Money Market Funds)							
Fidelity	AAA	Various	On demand	O/N	0.66%	2,288,486	2,288,486
Goldman Sachs	AAA	Various	On demand	O/N	0.70%	1,900,000	1,900,000
Aberdeen Standard	AAA	Various	On demand	O/N	0.74%	2,100,000	2,100,000
						6,288,486	6,288,486
Total						18,365,292	18,365,292

Analysis of Outstanding Investments by Credit Rating of Counterparty at 31 December 2018 (Minimum Criteria per TMSS A-)



Note – The credit ratings in the table & chart relate to the standing as at 31 December 2018, these ratings are constantly subject to change.

Appendix B

Prudential Indicators 2018/19

Prudential indicators (numbering references the indicator number from the Treasury Management Strategy)			Result	RAG
Treasury Management Indicators				
	The Authorised Limit			
5	<i>The authorised limit represents an upper limit of external borrowing that could be afforded in the short term but may not be sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is a statutory limit under section 3(1) of the Local Government Act 2003.</i>	TEST - Is current external borrowing within the approved limit	YES	●
	The Operational Boundary			
6	<i>The operational boundary represents an estimate of the most likely but not worst case scenario it is only a guide and may be breached temporarily due to variations in cash flow.</i>	TEST - Is current external borrowing within the approved limit	YES	●
	Actual External Debt			
7	<i>It is unlikely that the Commissioner will actually exercise external borrowing until there is a change in the present structure of investment rates compared to the costs of borrowing.</i>	TEST - Is the external debt within the Authorised limit and operational boundary	YES	●
	Gross and Net Debt			
9	<i>The purpose of this indicator is to highlight a situation where the Commissioner is planning to borrow in advance of need.</i>	TEST - Is the PCC planning to borrow in advance of need	NO	●
	Interest Rate Exposure			
10/11	<i>The purpose of this indicator is to contain the Commissioner's exposure to unfavourable movements in future interest rates. This represents the position that all of the Commissioner's authorised external borrowing may be at a fixed rate at any one time.</i>	TEST - Is the PCC exposed to unfavourable interest rates	NO	●
	Maturity Structure of Borrowing			
12	<i>The indicator is designed to exercise control over the Commissioner having large concentrations of fixed rate debt needing to be repaid at any one time.</i>	TEST - Does the PCC have large amounts of fixed rate debt requiring repayment at any one time	NO	●
	Upper Limit for total principal sums invested for over 364 Days			
13	<i>The purpose of this indicator is to ensure that the Commissioner has protected himself against the risk of loss arising from the need to seek early redemption of principal sums invested.</i>	TEST - Is the value of long term investments within the approved limit	YES	●
Affordability Indicators				
	Ratio of Financing Costs to Net Revenue Stream			
3	<i>This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of revenue budget required to meet financing costs</i>	TEST - Is the ratio of capital expenditure funded by revenue within planned limits	YES	●
	Impact of capital investment decisions on the Council Tax			
8	<i>This indicates the incremental impact of the capital investment decisions funded from prudential borrowing proposed for the period 2018/19 based on a Band D property in line with the proposed council tax level.</i>	TEST - Is the effect of capital expenditure on council tax within planned estimates	YES	●
Prudence Indicators				
	Net Borrowing and the Capital Financing Requirement			
1	<i>This indicator is to ensure that net borrowing will only be for capital purposes. The Commissioner should ensure that the net external borrowing does not exceed the total CFR requirement from the preceding year plus any additional borrowing for the next 2 years.</i>	TEST - Is net debt less than the capital financing requirement	YES	●
	Capital Expenditure and Capital financing			
2	<i>The original and current forecasts of capital expenditure and the amount of capital expenditure to be funded by prudential borrowing for 2018/19</i>	TEST - Is the current capital outturn within planned limits	YES	●
	Capital Financing Requirement			
3	<i>The CFR is a measure of the extent to which the Commissioner needs to borrow to support capital expenditure only. It should be noted that at present all borrowing has been met internally.</i>	TEST - Is the capital financing requirement within planned limits	YES	●



Peter McCall

Office of the Police and Crime Commissioner Report

REQUEST FOR POLICE & CRIME COMMISSIONER DECISION - (N° 001/ 2019)

TITLE: Approval of the Capital Strategy, Capital Programme and Treasury Management Strategy 2019/20

Executive Summary:

The purpose of this report is to provide information on the proposed capital strategy for 2019/20. The capital strategy (item 10a) is an overarching strategy that sits above the two documents which have been produced historically namely the capital programme (item 10b) and the treasury management strategy statement (item 10c). The capital strategy provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability. The capital programme is developed in consultation with the Constabulary who are the primary user of the capital assets under the ownership of the Commissioner.

Local Authorities (including Police and Crime Commissioners) determine their own programmes for capital investment in non-current (fixed) assets that are essential to the delivery of quality public services. The Commissioner is required by regulation to have regard to The Prudential Code when carrying out his duties in England and Wales under part 1 of the Local Government Act 2003. The Prudential Code establishes a framework to support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure: “within a clear framework, that the capital investment plans of local authorities are **affordable, prudent and sustainable**”. To meet these requirements, all schemes within the 4 year medium term capital programme are only approved on the basis that they are fully funded either through capital grants, capital reserves, capital receipts or revenue contributions.

Recommendations:

- 1.1. **Capital Strategy (Item 10a)** – The Commissioner is asked to approve the capital strategy including the prudential indicators set out in the report.
- 1.2. **Capital Programme (Item 10b)** - The Commissioner is asked to:
- Approve the capital programme for 2019/20 and beyond as part of the overall budget process for 2019/20.
 - Approve the status of capital projects as outlined in paragraph 3.1 and as detailed in appendices 2 to 5.
- 1.3. **Treasury Management Strategy (Item 10c)** - The Commissioner is asked to:
- Approve the Strategy for Treasury Management as set out at paragraph 4 for 2019/20.
 - Approve the Prudential Indicators Specific to Treasury Management for 2019/20 as described in paragraph 5.
 - Approve the Minimum Revenue Provision Policy Statement for 2019/20 as set out in paragraph 6.
 - Approve the Investment Strategy for 2019/20 as set out in paragraph 4.6
 - Note that the detailed Treasury Management Practices (TMPs) have been reviewed and updated as required by the Code of Practice and will be published alongside the TMSS on the Commissioner’s website.
 - Delegate to the Joint Chief Finance Officer any non-material amendments arising from scrutiny of the strategy by the Joint Audit Committee.

Police & Crime Commissioner

I confirm that I have considered whether or not I have any personal or prejudicial in this matter and take the proposed decision in compliance with the Code of Conduct for Cumbria Police & Crime Commissioner. Any such interests are recorded below.

I hereby approve/do not approve the recommendation above

Police & Crime Commissioner / Chief Executive (delete as appropriate)

Signature:

Date:



Peter McCall



**Capital Strategy 2019/20
(Including Prudential Indicators)**



Office of the Police and Crime Commissioner Report

Public Accountability Conference 20 February 2019

Title: Capital Strategy 2019/20

Report of the Joint Chief Finance Officer

**Originating Officers: Michelle Bellis, Deputy Chief Finance Officer;
Lorraine Holme, Financial Services Manager**

1. Purpose of the Report

- 1.1. This capital strategy is a new report for 2019/20, intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 1.2. The aim of this report is to provide enough detail to allow non-financial decision makers to understand how stewardship, value for money, prudence, sustainability and affordability will be secured without repeating in detail the information that is contained in other documents presented as part of this suite of capital and treasury management reports (agenda items 10b & 10c)
- 1.3. These reports meet the reporting requirements of the Chartered Institute of Public Finance and Accounting (CIPFA) Prudential Code for capital finance in Local Authorities 2017 updated guidance.

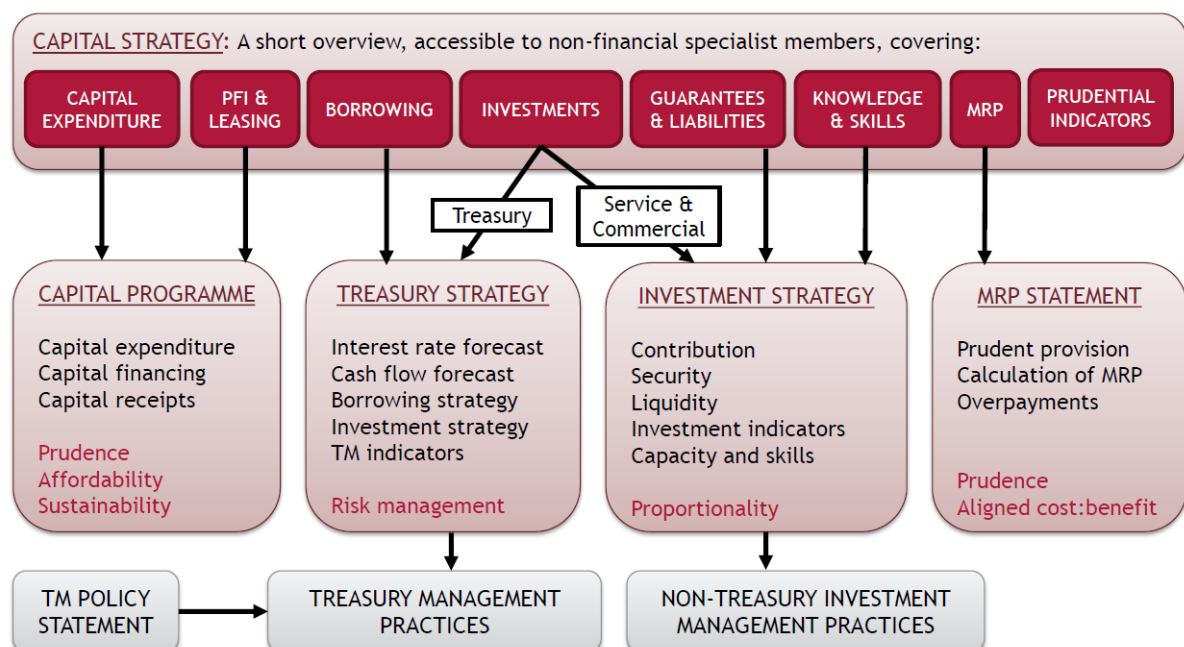
2. Recommendations

2.1. The Commissioner is asked to approve the contents of the report including the Prudential Indicators (as set out in the main body of the report in sections 3 to 7):

3. Introduction

3.1. The CIPFA Prudential Code (the code) and guidance notes were originally issued in 2002 and were later fully revised in 2009, 2011 and again in 2017. This new code requires the Commissioner to look at capital expenditure and investment plans in light of the overall strategy and resources and ensure that the decisions are being made with sufficient regard to the long run implications and potential risks to the Commissioner.

3.2. This capital strategy report provides an overview covering the following report structure:



*The MRP Statement and the Investment Strategy of the Commissioner are encompassed into the Treasury Management Strategy.

3.3. Prudential Indicators, other than those using actual expenditure taken from audited statements of accounts must be set prior to the commencement of the financial year to which they relate. Indicators may be revised at any time, and must, in any case, be revised for the year of account when preparing indicators for the following year. The Joint Chief Finance Officer has a prescribed responsibility under the Code to ensure that relevant procedures exist for monitoring and reporting of performance against the indicators. The Prudential Indicators when initially set and whenever revised, must be approved by the body which approves the budget, i.e. The Commissioner at his Public Accountability Conference.

4. Capital Expenditure and Financing

4.1. Capital expenditure is the term used to describe expenditure on assets, such as property, vehicles and ICT equipment, that will be used (or have a life) of more than 1 year. There is some limited discretion on what is to be treated as capital expenditure and assets costing less than £25k will be charged to the revenue account in accordance with the Financial Rules and Regulations (this is known as the deminimis level).

Prudential indicator of affordability – Estimates of capital expenditure

4.2. The capital expenditure estimates for the current year and four year medium term are shown below:

Capital Expenditure	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Capital Expenditure	5.25	6.05	8.71	9.47	5.35	8.34

4.3. The profile of capital expenditure fluctuates annually. Across the current four year programme, annual average expenditure typically comprises £1.4m to replace fleet vehicles, £2.5m on estate schemes and around £3.3m for replacement of ICT systems and equipment. ICT Expenditure reflects the Constabulary Strategy to invest in technology to support the delivery of operational policing and provide efficient business processes; schemes include the replacement of a number of control room systems with a single integrated solution and the national programme to replace the Police Radio System (Airwave) with an Emergency Services Network (ESN). Expenditure on Estates schemes over the 4 years includes the construction of the Eden Deployment Centre and the commencement of a scheme to provide a territorial headquarters in the west of the county (subject to option appraisal and formal approval). Smaller rolling replacement schemes are also included in all sections.

4.4. Budget holders are consulted in early October each year to review the previously approved 10 year capital investment plan, make changes based on latest information and project it forward one more year. These submissions are amalgamated and the resources available are applied. Shortfalls identified will need to be funded by increased revenue contributions or borrowing. Capital over the medium term is fully financed. Currently the Commissioner holds no external borrowing, however there is an underlying borrowing requirement, which is currently funded through internal borrowing.

Internal Borrowing – the practice of using reserves and provisions that have been set aside for future use to fund capital expenditure plans now. External borrowing comes with interest payments of currently 3%+ where investments are barely making 1% return in terms of interest, therefore there is an incremental cost to borrow in advance of need (known as cost of carry). This is therefore discouraged if there are cash reserves available that can be drawn down as an alternative to borrowing.

- 4.5. Over the 10 year capital plan there is currently a £1.8m shortfall in funding. Capital expenditure plans of this length depend greatly on estimated figures regarding future business requirements. Budget holders have been tasked with looking at their capital plans to refine their estimates and attempt eliminate this funding shortfall.
- 4.6. Before the commencement of each financial year the schemes for that year are revisited to be assigned an approval category. Large schemes which have previously been approved by the Commissioner following submission of a business case and the smaller rolling replacement schemes are approved on a firm basis or delegated to the Joint Chief Finance Office for future approval. Schemes requiring business cases, option appraisals and financial appraisals are given the status of indicative until they have been thoroughly scrutinised by all relevant business leads before being passed to the Police and Crime Commissioner for final approval.
- 4.7. All capital expenditure must be financed from one of three places:
- External sources, such as government grants or contributions
 - Internal resources - revenue budgets, capital reserves or capital receipts.
 - Debt – borrowing, Private Finance Initiative, leasing

The planned financing of the above expenditure is as follows:

Capital Financing	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Capital Receipts	0.00	0.00	0.00	1.96	0.16	0.00
Government Grants	0.00	0.58	2.77	4.11	0.37	0.00
Revenue Contributions	5.25	5.47	5.94	3.40	4.82	4.94
Total Financing	5.25	6.05	8.71	9.47	5.35	4.94
Borrowing *	0.00	0.00	0.00	0.00	0.00	3.40
Total Funding	0.00	0.00	0.00	0.00	0.00	3.40
Total Financing and Funding	5.25	6.05	8.71	9.47	5.35	8.34

* All borrowing in the table is internal although towards the end of the medium term it will be necessary to externalise our borrowing.

4.8. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing. The Commissioner is required to set aside a sum each year from the revenue budget to repay borrowing, which is linked to the life of the asset being financed. This is known as the minimum revenue payment (MRP) and can be likened to the minimum repayment on a credit card debt. The estimates for the repayment of internal borrowing from the revenue budget is shown below:

Minimum revenue provision	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Minimum revenue provision for the financial year	0.42	0.43	0.49	0.50	0.53	0.55

4.9. The capital financing requirement (CFR) is a measure of the amount of capital spending that has not yet been financed by capital receipts, grants or contributions, it is in essence the amount of internal debt finance of the Police and Crime Commissioner. The CFR increases each time there is new capital expenditure financed by debt and decreases with MRP repayments, capital receipts assigned to repay debt or by making additional voluntary contributions. The current and estimated CFR levels are shown below but it should be noted that these include an amount for the PFI financing of on average £4.5m.

Prudential indicator of affordability – Capital Financing Requirement

Capital Financing Requirement	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Capital Financing Requirement as at 31 March.	17.98	20.85	22.30	21.69	21.05	23.80

4.10. When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debts. The capital financing has been forecast assuming that all capital receipts will be used to finance new assets rather than reduce existing debt. Estimated capital receipts for the medium term are as follows:

Capital Receipts	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Asset sales	0.52	0.66	0.55	0.00	0.24	1.00

- 4.11. To ensure that capital assets continue to be of long term use and facilitate delivery of strategic objectives, there are Estates, Fleet and ICT strategies produced which are reviewed and approved annually.
- 4.12. Full details of the 10 year programme can be found in the separate report 'Capital Programme 2019/20 to 2028/29' (item 10b on this agenda).

5. Treasury Management

- 5.1. Treasury management is concerned with keeping sufficient but not excessive cash available to meet spending needs while managing the risks involved. Surplus cash is invested until required while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Police and Crime Commissioner is generally cash rich in the short term due to the level of reserves currently held and revenue grants being received in advance of spend, but cash poor in the long term due to capital expenditure being incurred in advance of being financed.
- 5.2. **Borrowing Strategy** - The main objectives when borrowing are to achieve a low but certain cost of finance, while retaining flexibility should plans change in future. These objectives are often conflicting, and the Commissioner therefore seeks to strike a balance between low cost short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 3.0%+). Current forecasts show that short term borrowing, probably from other local authorities, may be required at the start of 2020/21 to bridge a shortfall in cash in advance of receipt of the new financial year's revenue grants.

The Commissioner's actual external debt as at 31 March 2019 will be £4.75m, comprising other long term liabilities of £4.75m in relation to the PFI. It is unlikely that the Commissioner will actually exercise external borrowing until there is a change in the present structure of investments rates compared to the costs of borrowing. It should be noted that all external borrowing with the PWLB (Public Works Loans Board) was repaid during 2012/13.

Projected levels of the total outstanding debt are shown below compared with the capital financing requirement (CFR).

Gross Debt and Capital financing requirement	2018/19 Forecast £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Closing CFR 31 March	17.55	17.06	16.56	16.03
Gross Debt 31 March	4.75	4.58	4.40	4.20

Prudential indicator of prudence – Gross debt and the Capital Financing Requirement

Statutory guidance is that external debt should remain below the CFR in the previous year plus the estimates of any increase in the CFR at the end of the current year and the next two financial years this is to ensure that borrowing is only for capital purposes. The Commissioner remains well within this limit.

Liability Benchmark - The 2017 code encourages Authorities to define their own ‘Liability Benchmark’ which will provide a basis for developing a strategy for managing interest rate risk. On the basis that Arlingclose are not forecasting significant interest rate movements in the short term and that the Commissioner has no plans to make any long term external borrowing decisions over the next financial year, because of the ‘cost of carry’, development of a liability benchmark at this point would not provide added value. However, the Commissioner will actively develop indicators to manage interest rate risk in due course once there is more clarity over borrowing intentions.

As an assurance that borrowing is only undertaken for capital purposes and is sustainable, the Commissioner is required to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with the statutory guidance a lower ‘operational boundary’ is also set as a warning level should debt approach the limit.

Prudential indicator of affordability – Authorised limit and operational boundary for external debt

Authorised Limit for External Debt	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
External Borrowing	18.977	18.654	18.334	21.417
Other Long Term Liabilities	4.585	4.403	4.197	3.965
Total Authorised Limit	23.562	23.057	22.531	25.382

Operational Boundary for External Debt	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
External Borrowing	17.477	17.154	16.834	19.917
Other Long Term Liabilities	4.585	4.403	4.197	3.965
Total Operational Boundary	22.062	21.557	21.031	23.882

Further details on the borrowing strategy are on pages 7 to 9 of the treasury management strategy (agenda item 10c).

- 5.3. **Investment strategy** - Treasury investments arise from receiving cash before it is paid out again. The Commissioner makes investments because he has a cash surplus as a result of his day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments). The Commissioner does not make investments to support local public services by

lending to or buying shares in other organisations (service investments), or to earn investment income (known as commercial investments where investment income is the main purpose).

The Commissioner's policy on treasury investments is to prioritise **security** and **liquidity** over **yield**; that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy (subject to strict criteria) and the Commissioner may request his money back at short notice.

Estimates of investment levels and investment income are shown below:

Estimated Treasury Position	Estimate 2019/20 £m	Estimate 2020/21 £m	Estimate 2021/22 £m	Estimate 2022/23 £m
Investments (average)	15.185	9.816	7.376	4.563
Interest Receipts	0.120	0.165	0.140	0.115

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Joint Chief Finance Officer and Financial Services staff, who must act in line with the treasury management strategy approved by the Commissioner. Quarterly reports on treasury management activity are presented to the Joint Audit Committee. The Joint Audit Committee is responsible for scrutinising treasury management decisions.

Prudential indicators relating to treasury management activities are set out in the treasury management strategy.

Further details on treasury investment strategy are on pages 9 to 13 of the treasury management strategy (agenda item 10c).

6. Liabilities

- 6.1. In addition to debt of £4.75m detailed above, the Commissioner's balance sheet also shows long term liabilities totalling £1.229bn in respect of the Local Government and Police Officer Pension Scheme deficits. These will be met through a combination of payments from the revenue budget over a long

period and support from central Government. A sum of £1.4m has been set aside to cover risks from legal claims and insurance liabilities. The Commissioner is also at risk of having to pay for an unlawful discrimination claim arising from the transitional provisions in the Police pension Regulations 2015 but has not put aside any money because there has been no firm outcome to the case, no clarity of the scale of the claim and no certainty over who will bear the costs at this time.

- 6.2. The risk of liabilities crystallising and requiring payment is monitored by the Finance Services team. Further details on liabilities and guarantees are on page 93 of the 2017/18 statement of accounts.

7. Revenue Budget Implications

- 7.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Prudential indicator of affordability – Proportion of financing costs to net revenue stream

Ratio of Financing Costs to Net Revenue Stream	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Investment income	0.090	0.140	0.170	0.140	0.120	0.050
MRP	0.420	0.430	0.490	0.500	0.530	0.550
Financing Costs	0.330	0.290	0.320	0.360	0.410	0.500
Net Revenue Stream	101.820	104.530	106.510	107.640	108.800	110.000
Ratio	0.32%	0.28%	0.30%	0.33%	0.38%	0.45%

The ratios of financing costs to the revenue budget above are considered sustainable.

Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred over the MTFF period may extend for up to 50 years into the future. The Joint Chief Finance Officer is satisfied that the proposed capital programme is **prudent, affordable and sustainable**.

8. Knowledge and Skills

- 8.1. The Commissioner employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Joint Chief Finance Officer is committed to the Governments apprenticeship levy scheme and currently has a number of key employees studying at Level 3/4 (AAT) and Level 7 (CIPFA).

- 8.2. Where employees do not have the knowledge and skills required, use is made of suitably qualified external advisers. The Commissioner currently employs Arlingclose Limited as treasury management advisers. The contract expires on the 31 March 2019 and a process to re-tender the contract is currently underway. This approach is more cost effective than employing such staff directly, and ensures that the Commissioner has access to knowledge and skills commensurate with his risk appetite.

CUMBRIVISION 25





Cumbria Office of the Police and Crime Commissioner

Title: Capital Programme 2019/20 & Beyond

Public Accountability Conference: 20 February 2019

Report of the Joint Chief Finance Officer

Originating Officers: Michelle Bellis, Deputy Chief Finance Officer
Lorraine Holme, Financial Services Manager

1. Purpose of the Report

1.1. The purpose of this report is to provide information on the proposed capital programme for 2019/20 and beyond, both in terms of capital expenditure projections and the financing available to fund such expenditure. The capital programme is developed in consultation with the Constabulary who are the primary user of the capital assets under the ownership of the Commissioner.

2. Recommendations

- 2.1. The Commissioner is asked to approve the capital programme for 2019/20 and beyond as part of the overall budget process for 2019/20.
- 2.2. The Commissioner is asked to approve the status of capital projects as outlined in paragraph 3.1 and as detailed in appendices 2 to 5.

3. Capital Funding and Expenditure

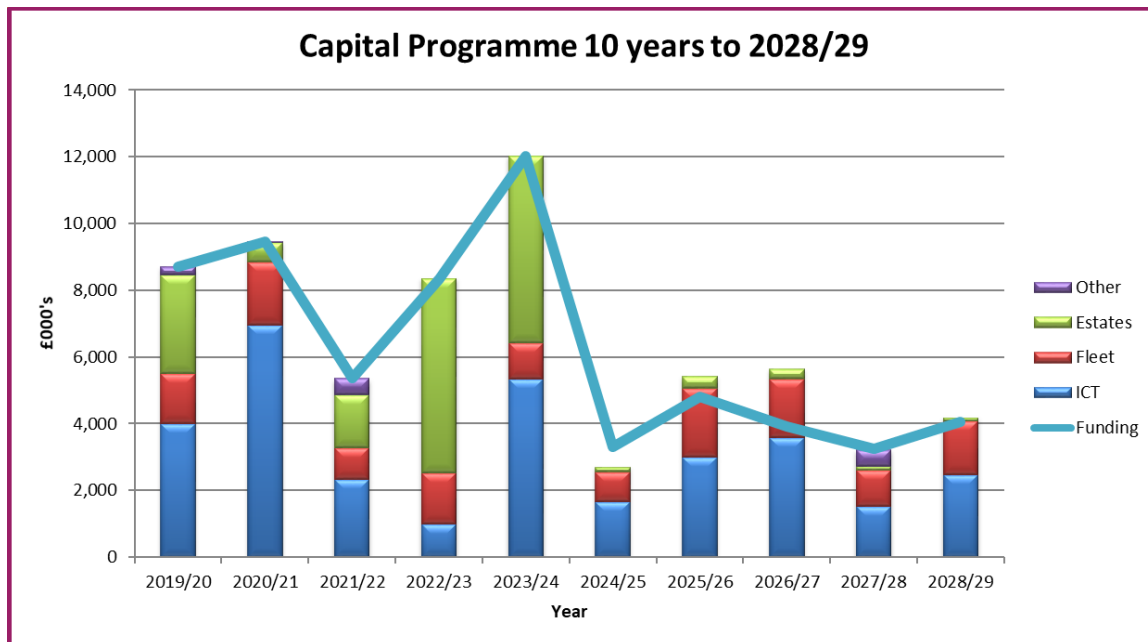
- 3.1. Local Authorities (including Police and Crime Commissioners) determine their own programmes for capital investment in non-current (fixed) assets that are essential to the delivery of quality public services. The Commissioner is required by regulation to have regard to The Prudential Code when carrying out his duties in England and Wales under part 1 of the Local Government Act 2003. The Prudential Code establishes a framework to support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure: “within a clear framework, that the capital investment plans of local authorities are **affordable, prudent and sustainable**”. To meet these requirements, all schemes within the 4-year medium term capital programme are only approved on the basis that they are fully funded either through capital grants, capital reserves, capital receipts, revenue contributions or planned borrowing.
- 3.2. There are three main recurring elements to the Commissioner’s capital programme namely: Fleet Schemes, Estates Schemes and ICT Schemes. In addition to these, there are currently a small number of “other schemes” which do not fall into the broad headings above and in particular includes the replacement of Taser and firearms equipment and replacement of the countywide CCTV system in the longer term.
- 3.3. The table below provides a high-level summary of the proposed capital programme and associated capital financing over the four-year timeframe of the medium term financial forecast (2019/20 to 2022/2023).

Capital Expenditure	Yr 0 2018/19 £	Yr 1 2019/20 £	Yr 2 2020/21 £	Yr 3 2021/22 £	Yr 4 2022/23 £
ICT Schemes	2,200,850	4,003,363	6,961,009	2,333,071	983,946
Fleet Schemes	987,484	1,491,253	1,872,720	946,504	1,533,290
Estates Schemes	2,696,917	2,964,172	590,000	1,575,000	5,825,000
Other Schemes	166,520	250,000	42,770	500,000	0
Total Capital Expenditure	6,051,772	8,708,787	9,466,499	5,354,575	8,342,236
Capital Financing	Yr 0 2018/19 £	Yr 1 2019/20 £	Yr 2 2020/21 £	Yr 3 2021/22 £	Yr 4 2022/23 £
Capital Receipts	0	0	(1,961,604)	(163,737)	0
Contributions from Revenue	(1,468,024)	(1,771,608)	(3,392,173)	(3,244,140)	(3,242,952)
Capital Grants	(575,051)	(2,774,905)	(4,112,722)	(371,698)	0
Capital Reserves	(4,008,697)	(4,162,275)	0	(1,575,000)	(1,699,284)
Borrowing	0	0	0	0	(3,400,000)
Total Capital Financing	(6,051,772)	(8,708,787)	(9,466,499)	(5,354,575)	(8,342,236)
Capital Budget (Excess)/Shortfall	0	0	0	0	0

- 3.4. The profile of capital expenditure fluctuates annually. Across the current ten year programme, annual average expenditure typically comprises £1.4m to replace fleet vehicles, £1.8m on estate schemes and around £3.2m for replacement of ICT systems and equipment. ICT Expenditure reflects the Constabulary Strategy to invest in technology along with the national programme to replace the Police Radio System (Airwave) with an Emergency Services Network (ESN).
- 3.5. By the end of 2020/21 historic capital grant and general capital reserves will have been fully utilised. This means that the capital programme from 2021/22 becomes more reliant on revenue contributions to fund capital expenditure. Historically the annual contribution from the revenue budget was set at £1.2m. When setting the capital budgets for 2017/18 onwards (PCP Jan 2017) to ensure the stability of the capital programme the annual contributions were increased to £1.7m for 2018/19 and 2019/20. This will rise to above £3.0m per annum from 2020/21 as accumulated capital reserves and grant are fully extinguished. The financing presented in this report includes an additional increase to revenue contributions of £0.3m per annum from 2020/21. The provisional funding settlement figures announced on 13 December 2018 stated that the capital grant will be £372k, this is an increase of £8k on the previous financial year. It is assumed in this strategy that the capital grant will remain at this new level each year for the full 10 years.
- 3.6. A summary of the 10-year capital programme is provided for information at **Appendix 1**. The appendix shows that the capital programme is fully funded over the medium term four-year period to 2022/23. The appendix also shows that in years 6-10 of the programme there are some shortfalls and excesses that amount to a combined net shortfall of £1.8m. The estimates for 5-10 years are built on a number of assumptions and relatively unknown costs making it difficult to accurately predict project costs. Department heads have been tasked with finding savings and new ways of working to reduce the planned expenditure across all areas, with the aim of bringing the programme back into balance over the longer term.
- 3.7. As a result of the majority of capital expenditure being in relation to relatively short lived assets (e.g. ICT and fleet of up to 10 years' life), choices for financing the capital expenditure are fairly limited. Borrowing for short-lived assets is not a viable consideration due to the requirement to set aside funds from revenue for the repayment of debt over the life of the asset. Therefore, any future borrowing would have to be in relation to building projects with a life of 50 years. It can be seen in **Appendix 1** that during 2022/23 and 2023/24 it is estimated that the Commissioner will need to borrow £9m. This is linked to an indicative scheme to improve the Commissioner's estate in the west of the county. A

full options evaluation exercise and formal report will be required before any firm decisions are made in relation to this project.

The chart below illustrates capital expenditure and funding over the ten-year period:



3.8. ICT Schemes

The ICT Capital Programme primarily provides for the cyclical replacement and improvement of the full range of ICT equipment, hardware and application software to meet the strategic and operational needs of the Constabulary. However, over the period of the medium term financial forecast it also supports the Constabulary strategy to invest in technology to modernise the police service that is delivered to our communities. The Policing Vision 2025 issued by the APCC and NPCC seeks to transform the delivery of policing services and positions ICT as a key enabler of change. These plans for the future will be developed and managed locally within the work streams of Cumbria Vision 2025.

The ICT capital programme is supported by the ICT strategy, an annual refresh of which will be presented to the Commissioner for approval at the Public Accountability Conference in February 2019 as part of the overall budget process for 2019/20.

The ICT Capital Programme also makes provision for a large number of national ICT programmes, which include changes of major strategic importance to replace the Police Radio System (Airwave) with an Emergency Services Network (ESN). The ESN scheme is included in the capital programme at the

estimated cost of £2.4m over the four years of the MTF and £5.9m over 10 years. Details of requirements are still emerging and it won't be clear as to the financial commitment needed locally until the Home Office release further information and devices are developed. There is slippage being reported by the national ESN programme and it is likely to be well into 2019 before we get any further clarity. The replacement Airwave handsets will use different technology to the old radios and the Constabulary's control room infrastructure needs to be upgraded if it is to be ready to support the connection to ESN.

The current command and control infrastructure in the control room is a large and complex network of ten legacy systems that provide a suite of applications to manage incidents. A scheme to replace these systems with a single fully integrated solution provided by Saab, known as SAFE, has commenced and is expected to be implemented in 2019/20.

If these two large schemes are discounted, the programme shows that the ICT capital programme presented remains broadly flat over the 10 years at approximately £2.2m per annum. This provides for the cyclical replacement and improvement of the full range of ICT services: the networks, security and storage data centre capacity that ensures information can be moved securely between the different systems and device end points through which it is entered, processed and stored. It also covers local and mandated national police systems such as the main crime and intelligence system, command and control, forensics management, prisoner information systems, case and custody, including digital files for sharing with Criminal Justice partners and the police national data base that supports the sharing of information between forces.

The Constabulary also maintains a range of ICT systems to manage corporate functions including financial transactions, human resources, payroll, fleet management, estates management, ICT support systems and training and learning systems. Over recent years significant investment in mobile and digital ICT has been undertaken, the capital programme presented provides for the subsequent replacement of existing mobile devices as they reach end of life. Budgets for devices also provide for the costs of all the different technology used to access systems, including traditional desktop computers, laptops, tablets as well as the smartphones that use application technology (police apps), but importantly provide end user access to all systems and applications.

Appendix 2 provides a high-level analysis of the ICT capital programme.

3.9. Fleet Schemes

The constabulary fleet replacement programme consists of 297 vehicles. The capital programme provides for the replacement and kit out of these vehicles on a periodic basis at the end of their useful life. The fleet schemes are supported by the fleet strategy, an annual refresh of which will be presented to the Commissioner for approval at the Public Accountability Conference in February 2019 as part of the overall budget process for 2019/20. The fleet strategy sets out the constabulary fleet requirements over the coming years. The main aim of the fleet strategy is to provide a cost effective fleet service to meet the needs of operational policing. The majority of vehicles are procured through a national framework agreement which ensures value for money is achieved.

During 2014/15 a large number of marked operational policing vehicles (e.g. ford focus estates, dogs vans and transit vans) were replaced with a single vehicle platform (SVP) which is based on a one size



fits all model, this SVP vehicle provides a single fit for purpose vehicle type to meet the majority of requirements. These vehicles are now approaching end of life and those with the highest mileage are becoming expensive to maintain. In the programme presented half of the single vehicle platform vehicles have been brought forward for replacement in 2019/20

Changes in permitted emissions levels have led to the temporary withdrawal of some car models whilst the manufacturers test and make modifications to their engines. This has led to delays in delivery of certain vehicles, but more importantly for this programme, it has led to an increase in prices for the new models as manufacturers seek to cover the costs of the additional work. Approximately £700k has been added to the fleet 10 year programme in response to these additional costs.

The 2019/20 capital programme is recommended for approval on a firm basis; the programme for future years is currently indicative and subject to change as the fleet programme develops to meet the changing needs of the organisation and the continual review process.

Appendix 3 provides a high-level analysis of the fleet capital programme.

3.10. Estates Schemes

The Commissioner's estate currently consists of 30 premises (including police headquarters, larger police stations/Territorial Policing Area HQ, which include custody suites, smaller police stations, one police house, leased in and leased out property together with surplus assets subject to disposal). The estates schemes are supported by the estates strategy, an annual refresh of which will be presented to the Commissioner for approval at the Public Accountability Conference in February 2019 as part of the overall budget process for 2019/20. The estates strategy aims to provide a link between the strategic objectives of the organisation and priorities for the estate. The strategy outlines the current and future requirements of the estate and documents the changes that are required to meet these.



The estates capital programme presented in February 2017 included the development of a new Eden Deployment base and replacement hostel accommodation on the HQ site at Penrith. Construction on this base is well under way and scheduled to be operational late in 2019.

The Eden Deployment base accounts for the vast majority of the estates programme for 2019/20 leaving only a small amount of cyclical replacement schemes e.g. roof repairs at Whitehaven and Kendal along with replacement of the UPS (Uninterrupted Power Supply) at the HQ site in Penrith.

Further into the medium term there is budget allocated to provide improved premises in the west of the county in response to major flooding incidents in recent years. Beyond this in the 10 year plan, the estates capital budget reduces significantly once the west scheme is complete, to leave on average £205k per year for replacement schemes.

Appendix 4 provides a high-level analysis of the estates capital programme.

3.11. Other Schemes

Other schemes include cross cutting or operational programmes of work and include the replacement of Tasers and Glock Pistols and works to expand and replace the Countywide CCTV system.

Appendix 5 provides a high-level analysis of the 'other' schemes.

4. Supplementary information

Attachments

- Appendix 1 Capital Expenditure and Financing 10 years 2019/20 to 2028/29
- Appendix 2 ICT Schemes
- Appendix 3 Fleet Schemes
- Appendix 4 Estates Schemes
- Appendix 5 Other Schemes
- Appendix 6 Analysis of the change in Capital Programme between February 2018 and February 2019

Capital Expenditure and Financing 10 years 2019/20 to 2028/29

Capital Expenditure	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 1-10
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£	£	£	£	£	£	£	£	£	£	£	£
ICT Schemes	2,200,850	4,003,363	6,961,009	2,333,071	983,946	5,330,061	1,660,777	2,987,820	3,581,661	1,521,463	2,458,772	31,821,942
Fleet Schemes	987,484	1,491,253	1,872,720	946,504	1,533,290	1,095,336	890,340	2,077,040	1,759,932	1,082,280	1,612,824	14,361,519
Estates Schemes	2,696,917	2,964,172	590,000	1,575,000	5,825,000	5,600,000	150,000	350,000	295,000	125,000	105,000	17,579,172
Other Schemes	166,520	250,000	42,770	500,000	0	0	0	0	0	500,000	0	1,292,770
Total Capital Expenditure	6,051,772	8,708,787	9,466,499	5,354,575	8,342,236	12,025,397	2,701,117	5,414,860	5,636,593	3,228,743	4,176,596	65,055,402
Capital Financing	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 1-10
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£	£	£	£	£	£	£	£	£	£	£	£
Capital Receipts	0	0	(1,961,604)	(163,737)	0	(1,714,557)	0	(795,001)	(254,853)	0	0	(4,889,752)
Contributions from Revenue	(1,468,024)	(1,771,608)	(3,392,173)	(3,244,140)	(3,242,952)	(3,241,729)	(3,305,369)	(3,272,211)	(3,301,104)	(3,236,457)	(3,304,659)	(31,312,401)
Capital Grants	(575,051)	(2,774,905)	(4,112,722)	(371,698)	0	(743,396)	0	(743,396)	(371,698)	0	(743,396)	(9,861,211)
Capital Reserves	(4,008,697)	(4,162,275)	0	(1,575,000)	(1,699,284)	(725,716)	0	0	0	0	0	(8,162,275)
Borrowing	0	0	0	0	(3,400,000)	(5,600,000)	0	0	0	0	0	(9,000,000)
Total Capital Financing	(6,051,772)	(8,708,787)	(9,466,499)	(5,354,575)	(8,342,236)	(12,025,397)	(3,305,369)	(4,810,608)	(3,927,655)	(3,236,457)	(4,048,055)	(63,225,639)
Capital Budget (Excess)/Shortfall	0	0	0	0	0	0	(604,252)	604,252	1,708,937	(7,714)	128,541	1,829,763

A more detailed analysis of capital expenditure is provided at Appendices 2-5.

ICT Schemes

ICT Summary	Yr 0 2018/19 £	Yr 1 2019/20 £	Yr 2 2020/21 £	Yr 3 2021/22 £	Yr 4 2022/23 £	Yr 5 2023/24 £	Yr 6 2024/25 £	Yr 7 2025/26 £	Yr 8 2026/27 £	Yr 9 2027/28 £	Yr 10 2028/29 £	Yr 1-10 Total £
ICT End User Hardware Replacement (002x)	100,859	1,274,799	136,711	1,342,042	267,270	1,006,063	626,063	136,360	1,489,212	237,213	241,927	6,757,660
ICT Core Hardware Replacement (003/004x)	1,728,379	2,873,188	2,749,782	398,302	517,750	1,046,400	573,448	2,699,766	479,783	759,058	1,152,509	13,249,987
ICT Core Infrastructure Replacement (projects)	0	112,493	1,998,200	300,000	96,094	2,032,092	0	0	1,851,918	0	0	6,390,796
ICT Infrastructure Solution Replacement (Projects)	371,612	1,742,882	76,316	292,726	471,708	1,696,645	553,084	799,878	90,744	756,836	1,555,323	8,036,143
Savings Target - 15% Year 5-10 (linked to ICT tech advances)	0	0	0	0	(368,876)	(451,139)	(91,818)	(648,184)	(329,996)	(231,644)	(490,987)	(2,612,645)
General Prudent Slippage (linked to workloads and staffing levels)	0	(2,000,000)	2,000,000	0	0	0	0	0	0	0	0	0
Total ICT Summary	2,200,850	4,003,363	6,961,009	2,333,071	983,946	5,330,061	1,660,777	2,987,820	3,581,661	1,521,463	2,458,772	31,821,942

Status - The ICT schemes within the capital programme above consolidate a significant number of complex and interrelated projects. The status of schemes is subject to agreement between the Commissioner and Constabulary. It is recommended that delegated approval is given to the Joint Chief Finance Officer to agree the status of schemes on the basis of the following principles:

Firm Schemes

- Schemes that are either routine cyclical upgrade of existing systems/hardware/software
- Schemes which have been approved by the Commissioner following submission of a business case/decision report

Delegated Schemes

- Schemes agreed in principle by decision report, where the detail of the financial profile/procurement/implementation plans are still to be developed
- Schemes within the Joint Chief Finance Officer's virement authorisation limits for which there is a clear business case
- Schemes above the Joint Chief Finance Officer's virement authorisation limits, but which are nationally mandated and supported by a business case.

Schemes not meeting the principles for firm or delegated schemes will be classed as indicative and will require a business case or decision report to the Commissioner before approval is given to commence with the scheme. The status of schemes applies to the funding for the four years 2019/20 to 2022/23, covering the period for which the capital programme is fully funded.

Fleet Schemes

Fleet Summary Proposed	Number of Vehicles in Category	Yr 0 2018/19 £	Yr 1 2019/20 £	Yr 2 2020/21 £	Yr 3 2021/22 £	Yr 4 2022/23 £	Yr 5 2023/24 £	Yr 6 2024/25 £	Yr 7 2025/26 £	Yr 8 2026/27 £	Yr 9 2027/28 £	Yr 10 2028/29 £	Yr 1-10 Total £		
Covert	14	74,200	107,498	0	83,824	27,560	81,000	94,600	22,400	91,884	30,160	88,500	627,426		
Neighbourhood Policing	92	261,630	681,400	979,200	0	723,980	421,200	0	739,200	1,124,040	792,280	460,200	5,921,500		
Specialist Vehicles	28	118,800	384,946	0	150,800	120,840	159,840	38,500	386,400	87,780	164,720	165,200	1,659,026		
Dog Vehicles	10	0	35,000	285,600	0	0	37,800	38,500	313,600	0	0	0	710,500		
Motor Cycles	8	15,300	0	0	0	0	16,200	0	141,120	0	0	17,700	175,020		
Pool Cars	29	46,716	13,000	53,040	135,200	15,900	128,736	40,040	20,160	38,418	60,320	180,304	685,118		
Protected personnel Carriers	9	122,400	0	0	187,200	254,400	0	0	0	136,800	0	0	578,400		
Roads Policing Vehicles	19	90,000	0	408,000	336,960	106,000	0	440,000	362,880	114,000	0	472,000	2,239,840		
Crime Command	39	62,100	106,000	0	31,200	0	210,600	135,300	58,240	103,740	34,800	0	679,880		
Crime Scene Investigators	10	0	0	0	21,320	284,610	0	0	0	0	0	0	305,930		
Garage	6	130,294	0	0	0	0	0	0	0	0	0	159,300	159,300		
Boat	0	0	0	0	0	0	0	0	0	0	0	0	0		
Chief Officer Pool	2	35,700	0	0	0	0	39,960	38,500	0	0	0	0	78,460		
Above Strength Vehicles	16	0	0	0	0	0	0	0	0	0	0	0	0		
Rechargable Vehicles	15	30,344	163,409	146,880	0	0	0	64,900	33,040	63,270	0	69,620	541,119		
													0		
Fleet Savings - Growth Limited to 50%													0		
Total Fleet Summary	297	0	987,484	0	1,491,253	1,872,720	946,504	1,533,290	1,095,336	890,340	2,077,040	1,759,932	1,082,280	1,612,824	14,361,519
Number of Vehicles Replaced Each Year		50	44	60	35	44	47	39	60	53	40	49	471		

Status - Fleet Replacement - It is recommended that all fleet replacement schemes are approved as firm for 2019/20 only. This provides authority to procure on the basis of the currently approved fleet strategy. The strategy will be reviewed during 2020/21 to inform the status of the capital programme in future years.

Estates Schemes

Estates Schemes			Ref	Status	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 1-10	
					2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total	
					£	£	£	£	£	£	£	£	£	£	£	£	
Existing Schemes																	
Roof Repairs - Various																	
			a	Firm	0	37,625	0	0	0	0	0	0	0	0	0	0	37,625
			b	Firm	0	55,000	0	0	0	0	0	0	120,000	0	0	0	175,000
			c	Firm	0	0	70,000	0	0	0	0	0	0	0	0	0	70,000
Heating, Ventilation & Cooling Plant - Various																	
					0	0	0	0	0	0	0	300,000	0	0	0	0	300,000
					0	0	0	0	0	0	0	0	0	60,000	0	0	60,000
Other Existing Schemes																	
					0	0	0	0	0	0	150,000	0	0	0	0	0	150,000
			d	Firm	0	100,000	0	0	0	0	0	0	0	0	30,000	0	130,000
					0	0	0	0	0	0	0	0	0	15,000	0	0	15,000
			e	Firm	2,300,000	2,771,547	0	0	0	0	0	0	0	0	0	0	2,771,547
			f	Firm	287,225	0	0	0	0	0	0	0	0	0	0	0	0
			g	Indicitive	0	0	500,000	0	0	0	0	0	0	0	0	0	500,000
			h	Firm	50,000	0	0	0	0	0	0	50,000	0	0	0	0	50,000
					0	0	0	0	0	0	0	0	0	50,000	0	0	50,000
			i	Indicitive	0	0	0	1,575,000	5,825,000	5,600,000	0	0	0	0	0	0	13,000,000
					0	0	0	0	0	0	0	0	75,000	0	0	0	75,000
					0	0	0	0	0	0	0	0	50,000	0	0	0	50,000
			j	Firm	9,692	0	0	0	0	0	0	0	0	0	0	0	0
					0	0	0	0	0	0	0	0	50,000	0	0	0	50,000
			k	Firm	50,000	0	0	0	0	0	0	0	0	0	0	0	0
			l	Firm	0	0	20,000	0	0	0	0	0	0	0	0	0	20,000
					0	0	0	0	0	0	0	0	0	0	0	0	0
Sub Total Existing Estates Schemes					2,696,917	2,964,172	590,000	1,575,000	5,825,000	5,600,000	150,000	350,000	295,000	125,000	30,000	17,504,172	
New Estates Schemes 2019/20																	
					0	0	0	0	0	0	0	0	0	0	35,000	0	35,000
					0	0	0	0	0	0	0	0	0	0	20,000	0	20,000
					0	0	0	0	0	0	0	0	0	0	20,000	0	20,000
Sub Total New Estates Schemes					0	0	0	0	0	0	0	0	0	0	75,000	0	75,000
Total Estates Schemes					2,696,917	2,964,172	590,000	1,575,000	5,825,000	5,600,000	150,000	350,000	295,000	125,000	105,000	17,579,172	

Estates Scheme Status Recommendations*

1. It is recommended that schemes (a), (b), (c), (d), (e), (f), (h), (j), (k) and (l) be approved as firm, these being routine cyclical replacement, upgrade of existing facilities or continuation of previously agreed schemes.
2. It is recommended that schemes (g) and (i) be agreed in principle as indicative schemes and subject to a business case being approved by the Commissioner.

*scheme status applies to the financial profile between 2019/20 and 2022/23 only unless otherwise stated.

Other Schemes

Other Schemes 2019/20 onwards	Yr 0 2018/19 £	Yr 1 2019/20 £	Yr 2 2020/21 £	Yr 3 2021/22 £	Yr 4 2022/23 £	Yr 5 2023/24 £	Yr 6 2024/25 £	Yr 7 2025/26 £	Yr 8 2026/27 £	Yr 9 2027/28 £	Yr 10 2028/29 £	Yr 1-10 Total £
CCTV	23,890	0	0	500,000	0	0	0	0	0	500,000	0	1,000,000
ANPR	49,855	0	0	0	0	0	0	0	0	0	0	0
Accelerated Recruitment	46,675	0	0	0	0	0	0	0	0	0	0	0
Portable Ballistic Protective Equipment	46,100	0	0	0	0	0	0	0	0	0	0	0
X2 Taser migration	0	250,000	0	0	0	0	0	0	0	0	0	250,000
Glock Pistol Replacement	0	0	42,770	0	0	0	0	0	0	0	0	42,770
Total Other Schemes	166,520	250,000	42,770	500,000	0	0	0	0	0	500,000	0	1,292,770

Other Scheme Status Recommendations*

- It is recommended that the remainder of the original CCTV scheme remains approved as firm, but that the wholesale replacement of the system in 2021/22 be subject to a business case.
- It is recommended that the Glock Pistol Replacement and Taser replacement schemes be approved on an indicative basis subject to a business case from the Territorial Policing Commander being presented to the Commissioner for approval.

*scheme status applies to the financial profile between 2019/20 and 2022/23 only unless otherwise stated.

Analysis of the change in Capital Programme between February 2018 and the February 2019 position.

	Yr 1 2019/20 £	Yr 2 2020/21 £	Yr 3 2021/22 £	Yr 4 2022/23 £	4 Year Total (£) TOTAL £
Capital Strategy - February 2018	7,441,788	7,470,741	9,326,423	9,177,825	33,416,777
Capital Strategy - Proposed (January 2019)	8,708,787	9,466,499	5,354,575	8,342,236	31,872,097
Difference (decrease)/Increase	1,266,999	1,995,758	(3,971,849)	(835,588)	(1,544,680)
Difference by Type					
- ICT Schemes	(450,813)	3,650,226	327,563	(1,106,348)	2,420,627
- Fleet Schemes	786,237	(368,238)	(49,412)	45,760	414,347
- Estates Schemes	1,274,576	(1,275,000)	(4,250,000)	225,000	(4,025,425)
- Other Schemes	(343,000)	(11,230)	0	0	(354,230)
Difference (decrease)/Increase	1,266,999	1,995,758	(3,971,849)	(835,588)	(1,544,680)
Explanation of the Difference by Type					
- ICT Schemes					
Change in telephony profile to 5 years	30,000	0	0	(33,000)	(3,000)
Change in mobile device profile	0	0	(106,500)	13,520	(92,980)
Change in Smartphone profile	209,950	(18,888)	(19,307)	(19,733)	152,022
Slippage 17/18 to 18/19 and 18/19 to 19/20	1,174,998	2,050,000	(31,900)	(30,800)	3,162,298
Transfer to revenue	(110,000)	0	0	0	(110,000)
Change in National ESN Project	(1,885,707)	1,648,200	300,000	(1,398,492)	(1,335,999)
Storage requirement added in	120,000	0	0	387,679	507,679
Case and Custody future development removed	(12,538)	(52,020)	(53,060)	(54,122)	(171,740)
BWV new scheme replacement	22,484	22,934	238,330	28,600	312,348
- Fleet Schemes					
Peugeot Expert Price Increase	0	128,000	0	0	128,000
Peugeot Expert Price Increase and B/Fwd	750,000	(650,000)	0	0	100,000
Effects of a previous years decision built in	33,690	(13,000)	0	48,800	69,490
18/19 Slipped to 19/20 and future	82,498	0	0	50,000	132,498
Replacement extended	(373,694)	400,000	20,000	(79,000)	(32,694)
Write Off	(15,700)	(43,000)	(50,000)	50,000	(58,700)
Price Increase	177,150	46,700	42,500	24,500	290,850
Price Decrease	(4,000)	0	(25,100)	(100)	(29,200)
Replacement removed	0	(150,000)	0	0	(150,000)
Added in - recharged	0	0	0	0	0
2028/29 added in	0	0	0	0	0
Inflation	(27,116)	(86,938)	(36,812)	(48,440)	(199,306)
Camera Scheme (recharged)	163,409				163,409
- Estates Schemes					
Change in Eden NPT Scheme	1,574,576	0	0	0	1,574,576
Re-profile of the West Scheme	(300,000)	(1,275,000)	(4,250,000)	225,000	(5,600,000)
- Other Schemes					
Business Analytics - removed from capital	(343,000)	(54,000)	0	0	(397,000)
Glock Replacement added in	0	42,770	0	0	42,770
Difference (decrease)/Increase	1,266,999	1,995,758	(3,971,849)	(835,588)	(1,544,680)
Difference left to explain	0	0	0	0	0



**Treasury Management, Investment, Borrowing
and MRP strategies 2019/20
(Including Prudential Indicators)**

Office of the Police and Crime Commissioner Report

Title: Treasury Management, Investment, Borrowing and MRP strategies 2019/20 & Prudential Indicators

Report of the Joint Chief Finance Officer

**Originating Officers: Michelle Bellis, Deputy Chief Finance Officer;
Lorraine Holme, Financial Services Manager**

1. Purpose of the Report

1.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the CIPFA TM Code) and the Prudential Code require Local Authorities (including PCCs) to determine the Treasury Management Strategy Statement (TMSS) on an annual basis.

These codes were originally issued in 2002, revised in 2009, 2011 and again in 2017. The TMSS presented here complies to the 2017 codes and accompanying guidance notes. The TMSS also incorporates the Investment Strategy which is a requirement of the Ministry of Housing, Communities and Local Government's Investment (MHCLG) Investment Guidance 2018.

This report proposes a strategy for the financial year 2019/20.

Treasury Management in Local Government continues to be a highly important activity. The Police and Crime Commissioner (“The Commissioner”) adopts the CIPFA definition of Treasury Management which is as follows:

‘the management of the organisation’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. Recommendations

2.1. The Commissioner is asked to:

- Approve the Strategy for Treasury Management as set out at paragraph 4 for 2019/20.
- Approve the Prudential Indicators Specific to Treasury Management for 2019/20 as described in paragraph 5.
- Approve the Minimum Revenue Provision Policy Statement for 2019/20 as set out in paragraph 6.
- Approve the Investment Strategy for 2019/20 as set out in paragraph 4.6
- Note that the detailed Treasury Management Practices (TMPs) have been reviewed and updated as required by the Code of Practice and will be published alongside the TMSS on the Commissioner’s website.
- Delegate to the Joint Chief Finance Officer any non-material amendments arising from scrutiny of the strategy by the Joint Audit Committee.

2.2. The Joint Audit Committee are asked to review the Treasury Management Strategy Statement and Treasury Management Practices to be satisfied that controls are satisfactory and provide advice as appropriate to the Commissioner.

3. Background

3.1. The Commissioner is required to approve an annual Treasury Management Strategy Statement in accordance with the CIPFA Code of Practice on Treasury Management, which also incorporates an Investment Strategy as required by the Local Government Act 2003 and which is prepared in accordance with the Ministry of Housing, Communities and Local Government’s Investment Guidance 2018. Together, these cover the financing and investment strategy for the forthcoming financial year.

- 3.2. The Treasury Management Strategy has been prepared in line with the model guidance produced by Arlingclose Ltd, who provide specialist treasury management advice to the Commissioner. It should however be noted that all treasury management decisions and activity are the responsibility of the Commissioner and any such references to the use of these advisors should be viewed in this context.
- 3.3. The current contract to provide specialist treasury advice expires on 31/03/2019 and a process to re-tender the contract is currently underway.

4. Treasury Management Strategy 2019/20

4.1. General Principles

4.1.1. Treasury management activities involving, as they do, the investment of large sums of money and the generation of potentially significant interest earnings have inherent risks. The Commissioner regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks. The main risks to the Commissioner's treasury activities are outlined below:

- Credit and Counterparty Risk (Security of Investments)
- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Re-financing risks (Impact of debt maturing in future years)
- Legal & Regulatory Risk.
- Fraud, error and corruption Risk

4.1.2. Details of the control measures the Commissioner has put in place to manage these risks are contained within the separate Treasury Management Practices (TMPs).

4.1.3. The Commissioner 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. However, the high profile near failure of major banks in 2008 highlighted that this objective must be sought within a context of effective management of counter-party risk. Accordingly, the Commissioner will

continue to search for optimum returns on investments, but at all times the **security** of the sums invested will be paramount. This is a cornerstone of the CIPFA Code of Treasury Management Practice which emphasises “**Security, Liquidity, Yield** in order of importance at all times”. The security of the sums invested is managed by tight controls over the schedules of approved counter-parties, which are continually reviewed to take account of changing circumstances, and by the setting of limits on individual and categories of investments as set out at **Appendix A**.

4.1.4. The strategy also takes into account the impact of treasury management activities on the Commissioner’s revenue budget. Forecasts of cash balances, interest receipts and financing costs are regularly re-modelled. The revenue budget for 2019/20 and forecasts for future years have been updated in light of the latest available information as part of the financial planning process.

4.2. External Guidance

4.2.1. The guidance under which this strategy is put forward comes from a variety of different places. Principally, however, the requirement to produce an annual Treasury Management Strategy is set out in the CIPFA Code of Practice on Treasury Management published in 2011 and recently updated in 2017. There is, in addition, a further requirement arising from the Local Government Act 2003 (Section 15) and the 2018 Ministry of Housing, Communities and Local Government’s Investment Guidance, to produce an investment strategy as part of the wider Treasury Strategy. This is set out below at paragraph 4.6. Finally, the Commissioner’s current treasury advisor’s Arlingclose Ltd have provided some advice about possible future trends in interest rates and advice on best practice in relation to the format of the TMSS.

4.3. Treasury Management Cash Flow Forecast

4.3.1. Treasury Management activity is driven by the complex interaction of expenditure and income flows, but the core drivers within the Commissioner’s balance sheet are the underlying need to borrow to finance its capital programme, as measured by the capital financing requirement (CFR), which is explored in detail in section 4.5 of this report, and the level of reserves and balances. In addition, day-to-day fluctuations in cash-flows due to the timing of grant and council tax receipts and out-going payments to employees and suppliers have an impact on treasury activities and accordingly are modelled in detail. The Commissioner’s level of debt and investments is linked to the above elements, but market conditions, interest rate expectations and credit risk considerations all influence the Commissioner’s strategy in determining exact borrowing and lending activity.

4.3.2. The estimated treasury position at 31st March 2019 and for the following financial years are summarised below:

Estimated Treasury Position	Estimate 2019/20 £m	Estimate 2020/21 £m	Estimate 2021/22 £m	Estimate 2022/23 £m
External Borrowing	0.00	0.00	0.00	0.00
Interest Payments	0.00	0.00	0.00	0.00
Investments (average)	15.185	9.816	7.376	4.563
Interest Receipts	0.120	0.165	0.140	0.115

4.3.3. The figures in the table above are based on the approval of the proposed revenue budget and capital programme presented to the Commissioner elsewhere on this agenda and are based on the interest rate assumptions as outlined in paragraph 4.4.3 below.

4.3.4. The Commissioner's underlying need to borrow, as measured by the Capital Financing Requirement (CFR), is estimated to be £17.5m at the start of the 2019/20 financial year. This includes £4.7m which is the capital value of the PFI contract as required by changes to proper accounting practices introduced in The Code of Practice on Local Authority Accounting 2009. The capital programme paper elsewhere on this agenda (see item 10b) indicates that the Commissioner will need to borrow to deliver the agreed capital programme, specifically to provide a fit for purpose territorial policing HQ in the west of the county. This investment is still indicative and would be subject to a full business case decision process. However, under current market conditions, where short term interest receipts are forecast to remain low in the immediate future, and there are continuing general uncertainties over the credit worthiness of financial institutions, it is assumed that the most prudent borrowing strategy for the present is to meet the capital funding requirement from within internal resources. This has the effect of reducing the cash balances available for investment. Advice will continue to be sought from our treasury advisors as to the most opportune time and interest rate to undertake external borrowing.

4.3.5. The estimate for interest receipts in 2019/20 is £165k (latest forecast for 2018/19 is £135k). The low level of receipts reflects the historically low level of investment returns currently available where the Bank of England base rate stands at 0.75%.

4.4. Treasury Management Interest Rate Forecast

4.4.1. The uncertain political situation surrounding Brexit has produced the prospect of divergent paths for UK monetary policy. The on-going economic and political uncertainty relating to Brexit has prompted Arlingclose to both change their central forecast and widen the possible range of interest rate paths to incorporate the different Brexit outcomes. These range from an immediate no-deal Brexit to remaining in the European union.

4.4.2. Due to the short time for a Brexit withdrawal deal to be agreed and the possibility of an extended period of uncertainty the central forecast is the bank base rate to remain unchanged until December 2019 before rising twice thereafter

4.4.3. The main forward projections of interest rates provided by Arlingclose are shown in the table below. It should be noted that these forecasts are based on information as at January 2019. The quarterly treasury activities reports will contain updated information in respect of interest rate forecasts.

Base Rate Estimates	2018/19	2019/20	2020/21	2021/22	2022/23
Quarter 1	0.50%	0.75%	1.00%	1.25%	1.25%
Quarter 2	0.75%	0.75%	1.25%	1.25%	1.25%
Quarter 3	0.75%	0.75%	1.25%	1.25%	1.25%
Quarter 4	0.75%	1.00%	1.25%	1.25%	1.25%

4.5. Borrowing Strategy

4.5.1. Long Term Borrowing

The Commissioner's underlying need to borrow for capital purposes is measured by reference to the Capital Financing Requirement (CFR), which is one of the Prudential Indicators and represents the cumulative capital expenditure of the Commissioner that has **not** been financed from other sources such as capital receipts, capital grants, revenue contributions or reserves. To ensure that this expenditure will ultimately be financed, authorities are required to make a provision from their revenue accounts each year for the repayment of debt. This sum known as the Minimum Revenue Provision (MRP) is intended to cover the principal repayments of any loan over the expected life of a capital asset. The CFR together with Usable Reserves, are the core drivers of the Commissioner's Treasury Management activities.

Actual borrowing may be greater or less than the CFR, but in order to comply with the Prudential Code, the Commissioner must ensure that in the medium term, net debt will only be for capital purposes. Therefore the Commissioner must ensure that except in the short term, net debt does not exceed the

CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. In compliance with this requirement the Commissioner does not currently intend to borrow in advance of spending need.

The table below shows the Commissioner’s projected capital financing requirement for 2019/20 and beyond.

Capital Financing	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Balance B/fwd	18.40	17.98	17.55	17.06	16.56	16.03
Plus Capital Expenditure financed from borrowing	0.00	0.00	0.00	0.00	0.00	3.40
Less MRP for Debt Redemption	-0.42	-0.43	-0.49	-0.50	-0.53	-0.55
Balance C/Fwd	17.98	17.55	17.06	16.56	16.03	18.88

The above table shows only capital expenditure that is required to be financed from borrowing. The full capital programme and associated financing is reported in summary within the capital programme and capital programme elsewhere on the agenda (see item 10b).

The Commissioner is not expected to have any external borrowing at the start of 2019/20. Given that the CFR is forecast to be £17.5m this effectively means that the Commissioner will be funding over £12.8m of capital spend from internal resources (CFR £17.5m less £4.7m in relation to PFI).

Currently, there is a significant differential between investment rates at 1.00% and the rate at which long term finance can be procured, which despite standing at historically low levels, will still cost over 3.00+% pa. Consequently, at this juncture, undertaking long term borrowing is likely to have a prohibitively high short term cost to the revenue account. However, such funding decisions may commit the Commissioner to costs for many years into the future and it is therefore critical that a long term view is taken regarding the timing of such transactions. It should also be recognised that by funding internally, there is an exposure to interest rate risk at the point that actual borrowing is undertaken. Accordingly, the Commissioner, in conjunction with its treasury advisor (currently Arlingclose Ltd), will continue to monitor market conditions and interest rate prospects on an on-going basis, in the context of the Commissioner’s capital expenditure plans, with a view to minimising borrowing costs over the medium to long term.

4.5.2. Short Term Borrowing

Short term loans will be used to manage day to day movements in cash balances, or over a short term period to enable aggregation of existing deposits into longer and more sustainable investment sums. Short term borrowing would probably be from another Local Authority.

4.6. Investment Strategy

4.6.1. Local Authorities (which include the Commissioner) invest their money for three broad purposes:

- because they have surplus cash as a result of their day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

The Local Government Act 2003, Section 15(1)(a) requires the Commissioner to approve an investment strategy which must also meets the requirement in the statutory investment guidance issued by the Ministry of Housing, Communities and Local Government in January 2018. The Commissioner does not currently have, and does not intend to invest in, service investments or commercial investments so the detail below focuses on a Treasury Management Investment Strategy.

4.6.2. The CIPFA Code requires funds to be invested prudently, and to have regard for:

- **Security** – protecting the capital sum invested from loss; and
- **Liquidity** – ensuring the funds invested are available for expenditure when needed

The generation of **yield** is distinct from these prudential objectives. Once proper levels of security and liquidity are determined, it is then reasonable to consider what yield can be obtained consistent with these priorities. The objective when investing surpluses is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the aim would be to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

*The updated investment guidance emphasises “**Security, Liquidity, Yield** in order of importance at all times”.*

In the past the treasury management investment strategy has operated criteria based on credit ratings to determine the size and duration of investments it is willing to place with particular counterparties. The credit worthiness of counterparties is reviewed on an ongoing basis in conjunction with the Commissioner’s treasury advisors (Arlingclose Ltd).

The Commissioner holds significant balances of invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2018/19, the Commissioner's investment balance has ranged between £9.2m and £35.1m. The larger sum was due to the receipt in July 2018 of £20.4m pension top up grant from the Home Office, which is drawn down steadily over the remainder of the year. Balances in 2019/20 are forecast to slowly reduce as expenditure on large capital schemes continues. It is anticipated that, at the peak, when the pensions grant is received in July, balances for investment could approach £32m.

Credit Rating - Investment decisions are made by reference to the lowest published long-term credit rating from credit agencies such as, Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. In addition to credit ratings, the Commissioner and its advisors,(currently Arlingclose Ltd), select countries and financial institutions after analysis and ongoing monitoring of:

- Economic fundamentals (e.g., net debt as a % of GDP)
- Credit default swap prices
- Sovereign support mechanisms
- Share prices
- Corporate developments, news, articles, market sentiment and momentum
- Subjective overlay – or, put more simply, common sense.

The investment strategy for 2015/16 was opened up slightly to include some additional classes of investment to allow more flexibility and diversification. The strategy for 2019/20 remains the same. The decision to enter into a new class of investment is delegated to the Joint Chief Finance Officer. The strategy allows for investments in pooled funds such as money market funds or property funds. Following Brexit information and advice will be sought regarding the use of property funds to further diversify the Commissioners' portfolio, provide a longer-term investment and increase yield whilst maintaining security. A full explanation of each class of asset is provided in **Appendix A** together with a schedule of the limits that will be applied.

The Treasury Management Strategy is designed to be a dynamic framework which is responsive to prevailing conditions with the aim of safeguarding the Commissioner's resources. Accordingly, the Commissioner and his advisors will continuously monitor corporate developments and market sentiment with regards to counterparties and will amend the approved counterparty list and lending criteria where necessary. Whilst credit ratings are central to the counterparty risk evaluation process, other factors such as the prevailing economic climate are taken into consideration when determining

investment strategy. It is proposed to continue the policy, adopted in 2017/18 that the Joint Chief Finance Officer, subject to consultation with the Commissioner, be granted delegated authority to amend or extend the list of approved counterparties should market conditions allow.

The Joint Audit Committee will be updated on any changes to policy. The performance of the Commissioner's treasury advisors and quality of advice provided is evaluated prior to the annual renewal of the contract. Meetings with the advisors to discuss treasury management issues are held on a regular basis.

4.6.3. The use of Financial Instruments for the Management of Risks

Currently, Local Authorities (including PCC's) legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Act is not sufficiently explicit.

In the absence of any explicit legal power to do so, The Commissioner has **no** plans to use derivatives during 2019/20. Should this position change, the Commissioner may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require explicit approval.

4.6.4. Liquidity of investments

The investment strategy must lay down the principles which are to be used in determining the amount of funds which can prudently be committed for more than one year i.e. what MHCLG's defines as a long term investment.

The Financial Services team uses a cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Commissioner being forced to borrow on unfavourable terms to meet his financial commitments. For the Commissioner, the total of investments over one year in duration are limited to £5m with a maximum duration of three years. This policy balances the desire to maximise investment returns, with the need to maintain the liquidity of funds.

Under current market conditions there is still little opportunity to generate significant additional investment income by investing in longer time periods over one year. However, as always, investment plans should be flexible enough to respond to changing market conditions during the year. The estimate of investment income for 2019/20 amounts to £165k (£135k 2018/19) and actual investment performance will be reported regularly to the Commissioner and will be provided to members of the Joint Audit Committee as background information to provide guidance and support when undertaking scrutiny of Treasury Management procedures.

4.7. Treasury Management and Risk

4.7.1. The Commissioner's approach to risk is to seek optimum returns on invested sums, taking into account at all times the paramount security of the investment. The CIPFA Code of Practice and Treasury Management Practices (as set out below in para. 4.8) sets out in some detail defined treasury risks and how those risks are managed on a day to day basis.

4.8. Treasury Management Practices

4.8.1. The CIPFA Code of Practice on Treasury Management recommends the adoption of detailed Treasury Management Practices (TMPs). As outlined in section 1.1 above, the Treasury Management Code and Prudential Code were updated and additional guidance notes have now been received. The TMP's have been updated. The guidance from CIPFA recommends that TMPs should cover the following areas:

- Risk Management
- Performance Management
- Decision Making and Analysis
- Approved Instruments
- Organisation, Segregation of duties and dealing arrangements
- Reporting and Management Information requirements
- Budgeting, Accounting and Audit
- Cash and cashflow management
- Money laundering
- Training & Qualifications
- Use of external service providers
- Corporate Governance

Treasury Management is a specialised and potentially risky activity, which is currently managed on a day-to-day basis by the Financial Services Team under authorisation from the Joint Chief Finance Officer as part of a shared service arrangement for the provision of financial services. The training needs of treasury management staff to ensure that they have appropriate skills and expertise to effectively undertake treasury management responsibilities is addressed on an ongoing basis.

Specific guidance on the content of TMPs is contained within CIPFA's revised code of Practice for Treasury Management. Accordingly, the TMPs have been reviewed in detail and where necessary minor amendments have been made to bring the TMPs into line with The Code.

5. Treasury Management Prudential Indicators

5.1. The key objectives of The Code are to ensure, within a clear framework, that Capital investment plans are **affordable, prudent and sustainable** (or to highlight, in exceptional cases, that there is a danger this will not be achieved so that the Commissioner can take remedial action). To demonstrate that Authorities have fulfilled these objectives, the Prudential Code sets out the Indicators that must be used. The indicators required by The Code are designed purely to support local decision making and are specifically not designed to represent comparative performance indicators.

5.2. The treasury management Indicators are not targets to be aimed at, but are instead limits within which the treasury management policies of the Commissioner are deemed prudent. These cover three aspects:

5.2.1. **Maturity Structure of Borrowing** - It is recommended that upper and lower limits for the maturity structure of borrowings are calculated as follows:

Period of Maturity	Upper Limit %	Lower Limit %
Under 12 months	100.00	0
12 months and within 24 months	100.00	0
24 months and within 5 years	100.00	0
5 years and within 10years	100.00	0
10 years and above	100.00	0

The PCC currently has no external debt. This table will be updated once actual borrowing is undertaken.

This indicator is primarily applicable to organisations, which have undertaken significant levels of borrowing to finance their capital programmes in which case it is prudent to spread the profile of repayments to safeguard against fluctuations of interest payments arising from having to refinance a large proportion of the debt portfolio at any point in time. During 2012/13 the Commissioner repaid all outstanding external borrowing and as a result there is currently no requirement to apply stringent limits to the maturity profile of existing debt.

5.2.2. **Principal sums invested for periods longer than a year** – The purpose of this indicator is to contain the Commissioner’s exposure to the possibility of loss that might arise as a result of having to borrow short term at higher rates or losses by seeking early repayment of its investments.

Price Risk Indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond one year	£3m	£2m	£1m

5.2.3. **Exposure to interest rate changes** - The 2017 code encourages Authorities to define their own 'Liability Benchmark' which will provide a basis for developing a strategy for managing interest rate risk. On the basis that Arlingclose are not forecasting significant interest rate movements in the short term and that the Commissioner has no plans to make any long term external borrowing decisions over the next financial year, because of the 'cost of carry', development of a liability benchmark at this point would not provide added value. However, the Commissioner will actively develop indicators to manage interest rate risk in due course once there is more clarity over borrowing intentions.

5.3. Setting, Revising, Monitoring and Reporting

Prudential Indicators, other than those using actual expenditure taken from audited statements of accounts must be set prior to the commencement of the financial year to which they relate. Indicators may be revised at any time, and must, in any case, be revised for the year of account when preparing indicators for the following year. The Joint Chief Finance Officer has a prescribed responsibility under The Code to ensure that relevant procedures exist for monitoring and reporting of performance against the indicators. The Prudential Indicators when initially set and whenever revised, must be approved by the body which approves the budget, i.e. The Commissioner at his Public Accountability Conference.

6. Annual MRP Statement for 2019/20

6.1. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on authorities to make a prudent provision for debt redemption, this is known as the **Minimum Revenue Provision (MRP)**. The Local Government Act 2003 requires the Authority to "have regard" to The Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision most recently issued in 2018. This sum known as the MRP is intended to cover the principal repayments of any loan over the expected life of a capital asset.

6.2. The Ministry of Housing, Communities and Local Government's Guidance recommends that before the start of the financial year, The Commissioner approves a statement of MRP policy for the forthcoming financial year. This is now by agreement encompassed within the TMSS. The broad aim of the policy is to ensure that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure, which gave rise to the debt, provides benefits.

The four options available for calculating MRP are set out below:

- Option 1 – Regulatory Method based on 4% of the CFR after technical adjustments.
- Option 2 – CFR Method, based on 4% of the CFR with no technical adjustments.
- Option 3 – Asset Life Method, spread over the life of the asset being financed.
- Option 4 – Depreciation Method, based on the period over which the asset being financed is depreciated.

- 6.3. It is proposed that The Commissioner’s MRP policy for 2019/20 is unchanged from that of 2018/19 and that The Commissioner utilises option 1 for all borrowing incurred prior to the 1st April 2008 and option 3 for all borrowing undertaken from 2008/09 onwards, irrespective of whether this is against supported or unsupported expenditure. This policy establishes a link between the period over which the MRP is charged and the life of the asset for which borrowing has been undertaken. It is proposed that a fixed instalment method is used to align to the Commissioner’s straight line depreciation policy.
- 6.4. MRP in respect of PFI and leases brought on to the balance sheet under the 2009 accounting requirements will match the annual principal repayment for the associated deferred liability. This will not result in an additional charge to the Commissioner’s revenue budget as this is part of the capital repayment element of the PFI unitary charge.
- 6.5. There have been some additional voluntary contributions of MRP made in previous years that are available to reduce the revenue charges in later years. No such overpayments or withdrawals are planned for 2019/20.

7. Balanced Budget Requirement

- 7.1. The Commissioner complies with the provisions of section 32 of the Local Government Finance Act 1992 to set a balanced budget.

8. Reporting on Treasury Activities

- 8.1. In accordance with The Code of Practice for Treasury Management, the Commissioner will approve the Annual TMSS, receive, a quarterly summary of treasury activity, a mid-year update on the strategy and an annual report after the close of the financial year.

- 8.2. The Joint Audit Committee will be responsible for the scrutiny of treasury management policy and processes. The Joint Audit Committee terms of reference in relation to treasury management are:
 - Review the Treasury Management policy and procedures to be satisfied that controls are satisfactory.
 - Receive regular reports on activities, issues and trends to support the Committee's understanding of Treasury Management activities; the Committee is not responsible for the regular monitoring of activity.
 - Review the treasury risk profile and adequacy of treasury risk management processes.
 - Review assurances on Treasury Management (for example, an internal audit report, external or other reports).

- 8.3. The MHCLG Guidance on investments states that publication of strategies is now formally recommended, the full suite of strategy documents will be published on the Commissioner's website once approved.

Counterparty Selection Criteria and Approved Counterparties

1. Background

- 1.1. The lending criteria set out below are designed to ensure that, in accordance with The Code of Practice, the security of the funds invested is more important than maximising the return on investments. Following consultation with the Commissioner's treasury advisors (currently Arlingclose Ltd) there are no amendments to the criteria used in determining approved investment counterparties for 2019/20 compared to those in operation for 2018/19.

2. Counterparty Selection Criteria

- 2.1. The agreed changes to the selection criteria for investment counterparties for 2015/16 included changes to the investment categories, a reduction in the maximum amount and duration lengths for investments. This was to encourage diversification and to increase the security of those funds invested. These principles apply to the 2019/20 strategy. The investment limits and duration are linked to the credit rating and type of counterparty at the time the investment is made.
- 2.2. The credit worthiness of counterparties is monitored on an ongoing basis in conjunction with the Commissioner's treasury management advisors Arlingclose Ltd who provide timely updates and advice on the standing of counterparties. Whilst credit ratings are central to the counterparty risk evaluation process, other factors such as the prevailing economic climate are taken into consideration when determining investment strategy and at the time when individual investment decisions are made. In the event that this ongoing monitoring results in a significant change to counterparty selection during the year, the Commissioner and the Joint Audit Committee will be advised through the quarterly activities report.

- 2.3. The approved investment counterparties for the 2019/20 investment strategy are summarised as follows:

Category	Description	Comments
Category 1	Banks Unsecured	Includes building societies
Category 2	Banks Secured	Includes building societies
Category 3	Government	Includes other Local Authorities
Category 4	Registered Providers	Includes providers of social housing e.g. Housing Associations
Category 5	Pooled Funds	Includes Money Market Funds and property funds

- 2.4. A more detailed explanation of each of these counter party groupings is provided in **Schedule B** (page 20).

3. Counterparty Groupings / Limits

- 3.1. The criteria for approving investment counterparties have been devised, grouped, graded and investment limits attached as detailed in **Schedule A** (page 19). The limits are based on a percentage of the potential maximum sums available for investment during the year of up to £40m. The counterparty limits for 2019/20 are the same as the limits for 2018/19. Pooled funds are in essence the same as AAA money market funds but they require 3 days notice for the return of our funds. This slight reduction in cashflow is rewarded by a slightly increased interest rate. Arlingclose suggest that these funds are used for longer term investments and the ordinary money market funds to manage cash flow.

4. Description of Credit Ratings

- 4.1. As outlined in paragraph 2.2 above the credit worthiness of counterparties is monitored on an ongoing basis in conjunction with the Commissioner's treasury management advisors Arlingclose Ltd. A description of each of the credit rating is provided at **Schedule C** (page 21-23).

Schedule A – Counterparty Groupings and Associated Limits

Investment Limits						
Credit Rating	Maximum	1	2	3	4	5
		Banks	Banks	Government	Registered	Pooled
		Unsecured	Secured		Providers	Funds
<u>Category Limit 2019/20</u>	Amount	£20m	£20m	Unlimited	£10m	£20m
	Duration					
<u>Individual Institution/Group Limits</u>						
UK Government	Amount	N/A	N/A	£ unlimited	N/A	N/A
	Duration			50 Years		
AAA	Amount	£2m	£4m	£4m	£2m	£4m per fund (Pooled funds are generally not rated but the diversification of funds equate to AAA credit rating)
	Duration	5 years	20 years	50 years	20 years	
AA+	Amount	£2m	£4m	£4m	£2m	
	Duration	5 years	10 years	25 years	10 years	
AA	Amount	£2m	£4m	£4m	£2m	
	Duration	4 years	5 years	15 years	10 years	
AA-	Amount	£2m	£4m	£4m	£2m	
	Duration	3 years	4 years	10 years	10 years	
A+	Amount	£2m	£4m	£2m	£2m	
	Duration	2 years	3 years	5 years	5 years	
A	Amount	£2m	£4m	£2m	£2m	
	Duration	13 months	2 years	5 Years	5 years	
A-	Amount	£2m	£4m	£2m	£2m	
	Duration	6 months	13 months	5 years	5 years	
None	Amount	N/A	N/A	£2m	£2m	
	Duration			25 years	5 years	

Note, individual, group and category limits for 2019/20 are based on the potential maximum available for investment during the year of up to £40m. It should also be noted that as outlined in paragraph 2.2 above, counterparty credit rating is not the only factor taken into consideration at the time of placing investments.

The maximum of all investments with outstanding maturities greater than one year will be £5m.

Schedule B – Explanation of Counterparty Groupings

Class of Investment

Category 1 - Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Category 2 - Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Category 3 - Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Category 4 - Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Category 5 - Pooled Funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Schedule C – Description of Credit Ratings – Long Term Rating

Rating Agency	Fitch	Moody's	Standard & Poor's
Long Term Rating	<p>This category of ratings applies to investments over 12 months. The grading is in the range AAA, AA, A, etc, down to DDD.</p> <ul style="list-style-type: none"> • AAA Highest credit quality 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be affected by foreseeable events. • AA Very high credit quality 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. • A High credit quality 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings. <p>The Commissioner will confine investments to those institutions with a minimum rating of A-.</p>	<p>This category of ratings applies to investments over 12 months. The grading is in the range Aaa, Aa, A, etc, down to C.</p> <p>Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa to Caa.</p> <p>The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.</p> <ul style="list-style-type: none"> • Aaa Obligations rated Aaa are judged to be of the highest quality, with the lowest level of credit risk. • Aa Obligations rated Aa are judged to be of high quality and are subject to very low credit risk. • A Obligations rated A are considered upper-medium grade and are subject to low credit risk. <p>The Commissioner will confine investments to those institutions with a minimum rating of A1.</p>	<p>This category of ratings applies to investments over 12 months. The grading is in the range AAA, AA, A, etc, down to D.</p> <p>The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.</p> <ul style="list-style-type: none"> • AAA: An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. • AA: An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong. • A: An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong. <p>The Commissioner will confine investments to those institutions with a minimum rating of A-.</p>

Schedule C – Description of Credit Ratings – Short Term Rating

Rating Agency	Fitch	Moody's	Standard & Poor's
<p>Short Term Rating</p>	<p>This category of ratings generally applies to investments of up to 12 months. The grading is in the range F1, F2, F3, B, C, D.</p> <ul style="list-style-type: none"> F1 Highest credit quality Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote an exceptionally strong credit feature. <p>The Commissioner will confine investments to those institutions with a minimum rating of F1.</p>	<p>This category of ratings generally applies to investments of up to 12 months. The grading is in the range P1, P2, P3, NP (not prime).</p> <ul style="list-style-type: none"> P1 Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations. <p>The Commissioner will confine investments to those institutions with a minimum rating of P1.</p>	<p>This category of ratings generally applies to investments of up to 12 months. The grading is in the range A1,A2, A3, B1, B2, B3, C, D.</p> <ul style="list-style-type: none"> A1 A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong. <p>The Commissioner will confine investments to those institutions with a minimum rating of A1.</p>

Schedule C – Description of Credit Ratings – Support Rating

Rating Agency	Fitch	Moody's	Standard & Poor's
Support Rating (Fitch)	<p>This category of assessment does not rate the quality of the banking institution, but represents the analyst's view of whether the bank would receive State or other support should this be necessary. The gradings are in the range 1 – 5, although as set out above, the strategy is to restrict such investments to grades 1 - 3:</p> <ul style="list-style-type: none"> • 1) A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. • 2) A bank for which, in the Analyst's opinion, there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to support the bank in question. • 3) A bank for which, in the Analyst's opinion, there is a moderate probability of external support, because of uncertainties about the ability or propensity of the potential provider of support to do so. 	<p>Not applicable</p>	<p>Not applicable</p>



Peter McCall

Office of the Police & Crime Commissioner

REQUEST FOR POLICE & CRIME COMMISSIONER DECISION - (N° 002 / 2019)

TITLE: 2019/20 Budget, Medium Term Financial Forecast and Reserves Strategy

Executive Summary:

The Commissioner is asked to approve the revenue budget, capital budget and reserves strategy for 2019/20 and the level of council tax to support the budget, having taken into account the advice of the Joint Chief Finance Officer in his report on the robustness of the proposed budgets. The papers provide provisional financial information for the years 2020/21 to 2022/23 and for 10 years in respect of the capital programme.

Recommendation:

The Commissioner is asked to note the attached Joint Chief Financial Officer's report on the robustness of the budget 'the Local Government Act 2003 Requirements' report (item 11a), taking into account his advice in respect of his decisions on the proposed budgets.

Appendix B of the attached report 'Budget 2019/20 and Financial Forecasts 2020/21 to 2022/2023' (item 11b) sets out the budget resolution for decision by the Commissioner in order to formally approve the level of council tax precept. In the context of the budget resolution, it is recommended that:

- a) The revenue budgets outlined in the report and appendices be approved, having regard to the Local Government Act 2003 Requirements report
- b) That the budget requirement for 2019/20 be set on the basis of the amount within the budget resolution at appendix B
- c) The council tax for Band D properties be approved at £256.68 for 2019/20, an increase of £23.94 or 10.29%, being the amount within the budget resolution

The commissioner is also asked to approve the Reserves Strategy for 2019/20 which is provided as a separate report (item 11c).

Police & Crime Commissioner

I confirm that I have considered whether or not I have any personal or prejudicial in this matter and take the proposed decision in compliance with the Code of Conduct for Cumbria Police & Crime Commissioner. Any such interests are recorded below.

I hereby approve/do not approve the recommendation(s) above

Police & Crime Commissioner / Chief Executive (delete as appropriate)

Signature: **Date:**

PART 1 – NON CONFIDENTIAL FACTS AND ADVICE TO THE PCC

1. Introduction & Background

It is a legal requirement for the Police and Crime Commissioner to annually set a balanced budget and to allocate funds to the Chief Constable to secure the maintenance of the Police Force for Cumbria. The attached reports set out the proposed budgets and the advice of the Joint Chief Finance Officer regarding their approval.

2. Issues for Consideration

Please see attached reports. The Local Government Act 2003 report sets out the primary issues for consideration in approving the proposed budgets.

3. Implications

(List and include views of all those consulted, whether they agree or disagree and why)

- 3.1. Financial: As set out in the attached reports
- 3.2. Legal: It is a legal requirement to annually set a balanced budget and determine the police precept.

- 3.3. Risk: The Local Government Act 2003 report documents the risks to the financial forecasts. Specific operational reserves and contingencies and general balances have been set at a level that in the view of the Joint Chief Finance Officer is reasonable in the context of those risks that it is possible to provide for. The budgets place reliance on the Home Office transition funding in respect of formula funding risks.
- 3.4. HR / Equality: The proposed budget provide resources used by the Constabulary. The Commissioner has arrangements in place to hold the Chief Constable to account in respect of the Public Sector Equality Duty. The budget is subject to an equality impact assessment. The 2019/20 budgets for the Constabulary provide resources to maintain establishment numbers.
- 3.5. I.T.: The budgets and capital programme are supported by a comprehensive ICT strategy. There are significant implications for ICT following from the investment proposed for both capital and revenue to support the delivery of the strategy.
- 3.6. Procurement: There are significant procurement implications arising from the budgets in respect of both revenue supplies and services expenditure and procurement of large capital estate and ICT schemes. A procurement strategy detailing the principles, which underpin procurement activity linked to planned procurement in 2019/20, is included as part of the agenda (item 14). Procurement regulations require procurement business partners to lead and/or support business managers in any significant or complex procurement activity.
- 3.7. Victims: The budgets provide resources for commissioning victims services in addition to the resources for the continued provision of sexual assault referral services.

4. Backgrounds / supporting papers

The Local Government Act 2003 Requirements Report
 Budget 2019/20 and Financial Forecasts 2020/21 to 2022/23

Public Access to Information

Information in this form is subject to the Freedom of Information Act 2000 (FOIA) and other legislation. Part 1 of this form will be made available on the PCC website within 3 working days of approval. Any facts/advice/recommendations that should not be made automatically available on request should not be included in Part 1 but instead on the separate Part 2 form. Deferment is only applicable where release before that date would not compromise the implementation of the decision being approved.

Is the publication of this form to be deferred? NO

<p>If yes, for what reason:</p> <p>Until what date (if known):</p>
<p>Is there a Part 2 form - NO</p> <p>(If Yes, please ensure Part 2 form is completed prior to submission)</p>

ORIGINATING OFFICER DECLARATION:

<p>I confirm that this report has been considered by the Chief Officer Group and that relevant financial, legal and equalities advice has been taken into account in the preparation of this report.</p> <p>Signed: Date:</p>

OFFICER APPROVAL

<p>Chief Executive / Deputy Chief Executive (delete as appropriate)</p> <p>I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner / Chief Executive (delete as appropriate).</p> <p>Signature: Date:</p>
--

<p>Media Strategy</p> <p>The decision taken by the Police & Crime Commissioner may require a press announcement or media strategy.</p>
<p>Will a press release be required following the decision being considered? YES</p> <p>If yes, has a media strategy been formulated? YES</p> <p>Is the media strategy attached? NO</p> <p>What is the proposed date of the press release: 20th February 2019</p>



Cumbria Office of the Police and Crime Commissioner

Public Accountability Conference 20 February 2019

Local Government Act 2003 Requirements Report

Report of the Chief Finance Officer

1. Introduction

1.1 The Local Government Act 2003 requires the Chief Financial Officer to report formally on the robustness of the budget for consideration immediately prior to setting the Budget and Council Tax. The report aims to ensure that the Commissioner is aware of the opinion of the Joint Chief Financial Officer 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 Commissioner is required to take account of this report when determining the budget.

2. Robustness of the Estimates, Medium Term Plans and Tax Setting Calculations

2.1 Preparation for the budget, including decisions on key budget assumptions, takes place between November and February, with the budget being set 14 months ahead of the end of financial year to which it relates. Whilst the final recommended budget will always take account of the latest forecasts, the nature of the budget cycle means that there will always be some level of variation between the budget and actual expenditure. This risk is managed by ensuring that the budget process and estimates are robust and that balances and reserves are set at a level that takes account of financial and operational uncertainty. In giving a positive opinion on the robustness of the estimates and tax setting calculations reliance is placed on the Commissioner's overall arrangements for financial management.

- 2.2 The process for preparing the estimates involves a budget proposal from the Constabulary. The proposal is supported by detailed financial estimates prepared in accordance with guidance issued by the Joint Chief Finance Officer. Estimates are prepared under the professional supervision of the Deputy Chief Finance Officer and Financial Services Manager and with the support of Financial Services Officers. Estimates are subject to scrutiny by financial services staff and the Constabulary's Chief Officer Group, including a series of budget star chambers, prior to submission to the Joint Chief Finance Officer for further review.
- 2.3 Working papers for review include a full reconciliation between the base budget for the previous financial year and the proposed budget for the new financial year for each section of the budget. This is accompanied by the detail of the management accounts. The working papers support an analytical review of the reasonableness of variations between financial years against budget assumptions. The overall budget consolidates the Constabulary's budget proposal with detailed estimates of the Commissioner's direct expenditure; budgets commissioned with other third parties and estimates of income. The most significant areas of income are in respect of government grant and council tax. The budget is calculated using actual information from the settlement and district notification of the tax base.
- 2.4 In addition to detailed estimates for the immediate financial year, a Medium Term Financial Forecast (MTFF) is prepared covering four financial years. Key financial risks identified within the forecast are included within the Commissioner's strategic risk register and are subject to review based on the likelihood and severity of the risk. This ensures that the medium term profile of income and expenditure is based on a sound review of risk and uncertainty that informs budget assumptions and the level of provisions and reserves.
- 2.5 Internal audit undertake cyclical reviews of the main financial systems and processes. Both internal and external audit provide an annual opinion on governance and internal controls. In addition, the external auditor undertakes a review of financial resilience as part of the value for money conclusion within the audit findings report. Collectively this work provides assurance with regard to the accuracy and reliability of the financial information used in the budget setting process.

- 2.6 On the basis of the overall arrangements for financial management, and audit of those arrangements, I can confirm that in my view the Commissioner has robust procedures in place for determining estimates, medium term plans and the Council Tax requirements.

3. Determination of the level of resources available

- 3.1 The resources available to the Commissioner to support expenditure primarily derive from Home Office Police Grant (£59.942m). The next most significant funding source is Council Tax (£43.799m). The balance of expenditure is funded from specific grants, reserves and fees and charges. The 2019/20 budget is based on actual government grant settlement figures and district notifications of the Council Tax base. As such, a high degree of assurance can be provided in respect of the level of certainty for 2019/20 in respect of funding. This level of assurance cannot be given to resources beyond 2019/20.
- 3.2 The level of future grant funding will be heavily influenced by the outcome of the next Government spending review, which is due to be announced in the autumn of 2019, by which time the immediate economic impact of Brexit should also be clearer. In the 2019/20 grant settlement the Government provided funding to offset much of the financial impact of increased police officer pension contributions applicable from 1st April 2019, however, there is no guarantee that this will be continued in future years. Collectively, these factors mean that the calculation of grant funding forecasts beyond the 2019/20 financial year are particularly uncertain.
- 3.3 In recent years the Government has protected police grant funding, but only on a cash basis, whilst providing Commissioners with increased flexibility to raise council tax to fund pay increases and inflation. In relation to future Council Tax forecasts, this gives rise to a risk regarding the sustainability of local taxpayers supporting above inflation precept rises to maintain services over the longer term. Accordingly, a prudent approach has been adopted in forecasting precept increases beyond 2019/20 in the Medium Term Financial Forecast.
- 3.4 Each of the key issues with regard to the availability of resources, and the approach taken to managing the associated financial risk, is set out below. It is my opinion that the approach taken, alongside the Commissioner's position with respect to reserves and balances, is both prudent and robust in view of the level of risk.

Police and Crime Panel Veto

3.5 The arrangements for budget setting provide the Police and Crime Panel with a veto over the level of precept increase. The panel may determine that the precept increase is too high or too low. In these cases, the Commissioner is required to either reduce or increase the precept. It is for the Commissioner to determine the extent to which the precept is revised, having taken into account the views of the panel. For the 2019/20 budget the panel determined not to exercise its powers of veto and the budget is presented on the basis of the precept proposal that was unanimously supported by the panel of a £23.94 increase on the band D council tax, which represents an increase of 10.29%. The position of the panel in respect of future year precept increases will not be known until January of the relevant financial year, presenting a risk in respect of the precept increase assumptions in the medium term budget.

Legacy Council Tax Grants

3.6 Council tax discounts are available to support low income households with the cost of their council tax liabilities. They are administered locally on the basis of schemes developed by district councils. Because these benefits were previously administered nationally, and the impact of the change reduces the local tax base and council tax income, a national government grant compensates precept and billing authorities for the funding loss. Further compensation is provided for financial years where decisions have been taken to freeze the council tax precept. Collectively these grants are known as Legacy Council Tax Grants. The amount of grant for Cumbria is £4.85m.

3.7 There is a level of uncertainty in respect of longer term methodologies for distributing this funding and the mechanism through which the total amount of grant funding will be determined nationally. In addition, the calculation of the total national funding and its distribution is based on a number of assumptions. Where local circumstances vary from these assumptions, there will be a financial implication.

3.8 The level of government grant is set at the time of the financial settlement. The main risk in respect of the level of national funding is therefore in respect of future years grant allocations and the extent to which this funding is impacted by overall reductions in government department expenditure allocations. It is also unclear whether any future national review of police funding will result in this and other specific grants being rolled into formula grant. This would result in a change in the distribution methodology with potential impacts from the 2020/21 settlement.

- 3.9 A further risk is the potential for an increase in local claims for council tax discount. Experience of the last three years suggests that this risk is low as the move to local schemes has not resulted in any significant changes between former benefit and current discount applicants. It is however, known that there are gaps between the proportion of households eligible for discounts and the proportion that actually claim. Should this risk materialise there will be an implication for the collection fund managed by districts that will be shared with all precepting bodies. A high level estimate of the impact of this risk suggests that a 10% increase in claims would have a financial implication of around £400k for the Commissioner's budget.

Council Tax Base & Collection Fund Surplus and Deficits

- 3.10 The amount of council tax income is dependent on the level of council tax and the council tax base – the number of households in Cumbria, within property bands A to G, with a liability to pay their council tax bill. The council tax base is known for 2019/20, but may go up or down compared to the forecasts for the three final years of the medium term financial forecast. The medium term forecast assumes an annual increase in tax base of 0.75%. The experience of previous years has been that the actual tax base has been higher than forecast resulting in a low risk to income. Estimates are revisited on an annual basis.
- 3.11 In any single year the actual council tax income collected from households by district councils can be higher or lower than the amount forecast at the time of setting the budget. Any variation is shared with precepting authorities and will impact on the total amount of council tax income in future years. The factors influencing the council tax base and actual income collected are complex and difficult to forecast. There is therefore always a risk that income does not meet budgeted amounts. This is however considered to be a small risk as more recent trends, following council tax localisation, has been for actual income to exceed the forecast, this was the case up until 2018/19 where a small shortfall has been declared. The MTFE currently assumes a surplus of £200k per annum beyond 2019/20, which will be reviewed on an annual basis.

Council Tax/Council Tax Grant Risk

- 3.12 Collectively, the factors above mean that the ability to accurately forecast council tax income and the local council tax grant, in the medium term, is complex, reducing the amount of assurance that can be provided from income forecasts particularly beyond 2020/21. However, a high degree of assurance can be provided with regard to the combined income from council tax and council tax grants for the current year. Whilst future income is less certain the finance

team liaise closely with District Council's when setting these budgets to minimise the extent of this risk. Should any underachievement of income arise it is likely to be capable of being managed without having a material impact on the robustness of the budget or financial resilience.

National Funding Settlements

3.13 The budget for 2019/20 is presented based on notifications of the actual financial settlements. Beyond 2019/20 financial forecasts are based on estimates. The current medium term forecast assumes that the level of Government funding will be maintained at the level provided for 2019/20 on a flat cash basis.

3.14 This strategy carries some level of risk, making the assumption that any changes to formula funding will have a neutral impact on the budget or will be supported by sufficient transitional funding to allow time to implement required changes in operational services. This is considered to be a balanced approach given the high level of uncertainty regarding the timing and impact of changes to national funding formula.

Capital Grants and Capital Receipts

3.15 The capital budget has been developed as a 10 year programme. Government capital allocations are only given on an annual basis and the resources from 2019/20 have therefore been prudently based. Overall funding within the programme is reliant on capital receipts and this presents some risk to funding given the economic climate and market conditions. Capital reserves are however managed at a level to ensure that the programme is balanced for four years. This provides a high degree of resilience in respect of available funding over the life of the medium term financial forecast.

4. The affordability of Spending Plans

4.1 Revenue and Capital budget plans are subject to annual review to ensure that forecasts of resources remain robust and can support planned levels of expenditure. Whilst the process for developing budget estimates is comprehensive, there will always be a degree of risk and operational uncertainty in respect of expenditure forecasts. The affordability of the budget has to take account of financial risks and the actions that can be taken to mitigate that risk. In my view the Commissioner's expenditure plans are affordable, taking account of the risks set out below and the plans for how they will be managed.

Capital Expenditure

- 4.2 The capital programme incorporates the delivery of two significant estates capital schemes. These comprise an Eden Deployment Centre at the Penrith HQ site, and a longer term option to develop a scheme in West Cumbria to manage estates resilience issues within the west of the county. Both schemes are reliant on achieving capital receipts from the disposal of vacated sites. Within the current market this will entail some risk that income is either delayed or less than the amount assumed within the budget. All large capital schemes incorporate risks inherent in delivering to time and budget. The estates team are however highly experienced in the delivery of these type of schemes and have a strong track record of delivering projects within budget. Risks are captured within the estates risk register and are subject to regular review.
- 4.3 The capital programme to 2023 includes a significant number ICT capital schemes including the implementation of the Emergency Services Communications Network. The experience of past financial years is that ICT capital schemes can experience slippage against the budget. The reasons for the slippage are varied and include national schemes that have not progressed, local schemes that have been subject to changes in decision making and issues around capacity to deliver within the team. Whilst slippage in capital schemes does not create a financial pressure, the consequent level of reserves can be subject to challenge in the context of budget cuts. There are also reputational implications for the quality of financial forecasting and management. To protect against these risks it will be important to understand the risks and issues inherent in the ICT programme and ensure that delivery is effectively supported.
- 4.4 The capital programme is currently only sustainable on the basis of general capital reserves. In addition, any significant level of capital investment is reliant on a combination of prudential borrowing, direct revenue contributions and capital receipts. The programme is however forecast over 10 years to ensure advanced financial planning can be managed and peaks in expenditure are identified at an early stage. As capital reserves are depleted, increasing support for the capital programme from the revenue budget will be required. Accordingly, the revenue budget implications of the programme have been built into the medium term forecast.

Treasury Management

- 4.5 Treasury management has the potential to be an area of high budget risk that could have implications for the robustness of the budget should those risks materialise. The treasury management strategy statement provides assurance around the approach to investment and

borrowing activity and the way the function is managed that mitigates against this risk. The Commissioner should however be aware that the level of risk against any investment activity is higher in the current financial climate than would typically be the case.

Capital Financing

- 4.6 The capital programme is financed through direct revenue contributions, capital grants, reserves and borrowing. Notional borrowing reflects an underlying need to borrow to finance capital schemes, but where actual borrowing has not been undertaken because internal cash flow balances are sufficient to fund schemes. Many of the internal balances are available as a result of the level of short term reserves. As reserves are spent there will be an increasing need to actually borrow.
- 4.7 The underlying borrowing requirement is £12.8m. The exact timing of borrowing will depend on the extent to which capital schemes deliver to budget or are subject to slippage and the overall position on reserves. Borrowing will create a revenue implication in the form of interest charges and repayments that will be incorporated within the revenue budget, in line with cash-flow forecasts.

Inflation/Pay Awards

- 4.8 Pay costs are provided for within the budget on the basis of a 3% pay increase for the duration of the medium term forecast. Pay costs account for the most significant element of the budget and are therefore highly sensitive to variations against the budget assumption. This risk has recently increased as a result of the relaxation of the previous public sector pay constraints. General price inflation is forecast on the basis of 2% annual increases, in line with Bank of England long term forecasts. Inflation on fuel and energy costs are based on higher 5% annual increases.

Staffing Costs and Profiling

- 4.9 Within the budget employment costs are an area of budget that is highly sensitive to changes in the profile of staffing and difficult to forecast as a result of the complexities of and changes to terms and conditions that influence actual pay. Maintaining officer numbers at a planned level can be operationally difficult as a result of the timing of staff turnover and lead in time to recruit. Estimates of the costs of early retirement (ER) and redundancy have to be based on averages until the point in which individual staff are identified as part of the change management programme. These factors can cumulatively give rise to significant variations

between budgeted costs for pay and ER/redundancy. Historically there has been under spending against these budget heads, although more recently police officer pay budgets, in particular, have come under pressure. Pay budgets are based on detailed workforce plans and overtime targets, which are updated annually as part of the budget process.

Savings Requirements/Budget Management

4.10 The overall savings requirement over 4 years to balance the budget is £4.1m and this is ahead of any loss of funding that may arise from a future review of police grant formula. However, given the uncertainties over future funding, planning for a range of financial scenarios is being undertaken. Having delivered £25m of savings since 2010, additional savings will be challenging to deliver. Detailed discussions have taken place between the Commissioner and Chief Constable to identify areas where savings may be achieved. A number of potential savings initiatives are being pursued including reviews of specific business areas, workforce modernisation, collaboration with other forces and public sector bodies, consolidating functions to increase capacity and, in particular, ensuring that the full benefits are realised from the investment in new technology. These savings plans will be further developed over the next year as part of a strategic work programme in the Constabulary managed by the Deputy Chief Constable. In this context, the current savings requirement over the period of the MTFF is considered to be challenging, but manageable.

4.11 The more significant immediate risk is in respect of budget management. The 2018/19 budget is currently forecasting to overspend by £0.6m. The primary reasons for the forecast overspend are in relation to increases in police officer pay forecasts. This principally results from a combination of the earlier than originally planned recruitment of the additional 25 police officers pledged in the 2018/19 budget and a conscious decision to operate up 20 police officers over establishment to offset reductions in PCSO numbers as they leave to join as regular police officers. The latter also provides a safeguard against the potential future difficulty in recruitment as a result of the implementation of the Police Education Qualification Framework from January 2020. The overall position equates to 0.63% of budget. The Constabulary and Commissioner are working together to reduce this forecast overspend, should this not ultimately prove possible, the overspend will be funded from forecasts underspends on the capital programme for 2018/19. Whilst the overall financial position in 2018/19 does not present any material risks, the overspend is more indicative of growing demand pressures rather than any weaknesses in the budget management process. This may present some risk to

the medium term forecast in future years should demand continue to increase whilst financial and people resources are constrained.

5. General Balances and Reserves

- 5.1 General balances are held as a contingency against risks not provided for in the Commissioner's financial plans or other reserves and provisions. The level of balances, reserves and provisions are assessed annually to ensure they are adequate and take account of known financial risks. This is not a precise science and local circumstances, the strength of financial reporting arrangements and the Constabulary's track record in financial management is also a key influence on the actual potential of any risk materialising.
- 5.2 This report sets out the key risks that have been taken into account in presenting the budget, including any provision made for that risk. Some risks are currently unfunded whilst others have a level of provision that may be less than the full requirement. General balances should be at an appropriate level to provide cover for those risks. The Joint Chief Finance Officer has set balances at £3m for 2019/20. This is around 3% of net expenditure and reasonable in the context of the budget risks set out in this report. The general balances are supported by £2.4m of budget stabilisation, insurance and operational reserves and contingencies. These can be used to manage budget pressures in year that are unable to be contained within the set budget, subsequently being replenished as part of the following year's budget process.
- 5.3 Further cover is provided through the position on specific reserves. Whilst these are earmarked, a number of the reserves, particularly those for capital, are not planned to be used for a number of years. This provides an additional level of resilience in the short term, although the use of these reserves for other purposes would have an opportunity cost in relation to the future ability to undertake the projects for which they were originally earmarked.
- 5.4 Based on the risk assessment, the Commissioner's general balances are sufficient to meet potential risks and earmarked reserves are set at an appropriate level for the purposes intended. More information on reserves and the purpose for which they are held is included within the Commissioner's Reserves Strategy, included as item 11c on this agenda.

6. The Affordability of the Capital Programme in determining Prudential Indicators

- 6.1 The Prudential Code requires the Chief Financial Officer to ensure that all matters required by the Code to be taken into account in determining the budget are reported to the Commissioner. The treasury management strategy statement provides assurance in respect of this requirement. In particular, the strategy sets out the prudential indicators and limits calculated under the Code including those that support assurances in respect of the affordability of capital expenditure plans. The Code of practice gives no suggestions as to their appropriate level. These have to be set by the Commissioner based on individual circumstances.
- 6.2 The conclusions from the strategy following the setting and calculation of indicators is that capital expenditure plans are resourced and levels of borrowing are prudent in relation to income and assets. The strategy is subject to review by the Joint Audit Committee and independent advisors to provide further assurance that the principles of the code and best professional practice is being applied in relation to operational processes and procedures.

7. Conclusion

- 7.1 Based on the assessment included in this report I have concluded that the budgets as proposed and the associated systems and processes are sound and the level of general balances/reserves is adequate. This is subject to no amendments being made to the budget proposals, which would impact on this assessment. It is my view that the estimates proposed and the tax setting calculations are robust and the provisional capital programme is affordable.

Roger Marshall

Joint Chief Finance Officer

20th February 2019



Peter McCall

Cumbria Office of the Police and Crime Commissioner

Public Accountability Conference 20 February 2019

Budget 2019/20 and Financial Forecasts 2020/21 to 2022/23

Report of the Joint Chief Finance Officer

1. Purpose of the Report

- 1.1 The purpose of this report is to recommend to the Commissioner for approval the revenue and capital budget for 2019/20 and the level of council tax to support the budget. The report also provides provisional estimates for the three years to 2022/23, ensuring budget decisions are taken in the context of the medium term financial forecast.

2. Introduction

- 2.1 It is a legal requirement for the Police and Crime Commissioner to annually set a balanced budget and to allocate funds to the Chief Constable to secure the maintenance of the Police Force for Cumbria. In doing this the budget takes into account forecasts of the income anticipated to be available to the Cumbria police area and expenditure that is expected to be incurred in delivering the functions of the Commissioner and the priorities of the Police and Crime Plan. This report presents the Commissioner's revenue budget plans to meet these requirements.
- 2.2 This budget report is the second report in a series of papers that provide financial and other information to support the budget setting process. In January more detailed financial and contextual information has been provided to the Police and Crime Panel. Accompanying the budget report on this agenda is a report covering the capital strategy and programme, treasury management strategy, Prudential Indicators and the policy on Minimum Revenue Provision (MRP). These reports support the due diligence in respect of the affordability of the capital programme and the revenue implications of that expenditure. The agenda includes the Joint Chief Finance Officer's statutory report on the robustness of the budget and a reserves strategy. The full suite of financial reports is available on the Commissioner's website.

3. Summary Budget and Precept

- 3.1 The table below sets out a summary of the consolidated budget setting out the plans for income and expenditure based on the 2019/20 government financial settlement for policing bodies. **Appendix A** sets out the budget for the Commissioner and the budget for the Chief Constable.

Medium Term Budget 2019 - 2023	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s
Police Pay - Police Officer Pay & Allowances	59,085	63,980	65,538	67,463	68,946
Police Pay - Contribution to Pension Fund A/c	22,574	22,915	24,923	26,506	21,215
Police Pay - Ill Health & Injury Pensions	944	1,211	1,235	1,260	1,286
PCSO Pay	3,131	2,738	2,828	2,850	2,908
Staff Pay	21,264	23,106	23,595	24,197	25,048
Other Employee Costs	1,165	1,346	1,373	1,392	1,419
Premises Costs	4,047	4,312	4,271	4,373	4,478
Transport Costs	2,176	2,297	2,366	2,437	2,511
Supplies & Services	9,949	10,644	10,700	10,897	11,115
Third Party Expenditure	2,108	2,192	2,259	2,320	2,369
LGPS Past Service Costs	493	503	515	526	537
Insurances/Management of Change	657	706	718	739	755
Commissioned Services	2,246	2,245	2,245	2,245	2,245
Accounting and Financing Costs	11,553	7,376	4,831	6,255	6,375
Contributions to Reserves Revenue	113	183	96	96	96
Total Expenditure	141,505	145,754	147,493	153,556	151,303
Funded by					
Home Office Pension Top Up Grant	(22,574)	(22,915)	(24,923)	(26,506)	(21,215)
Additional Pensions Grant	0	(1,200)	(1,200)	(1,200)	(1,200)
Other Grants & Contributions	(6,961)	(6,773)	(6,788)	(6,803)	(6,818)
Sales, Fees, Charges & Rents	(4,784)	(5,211)	(4,845)	(4,791)	(4,887)
Interest/Investment Income	(75)	(165)	(140)	(115)	(115)
Revenue Reserves Drawdown	(12)	(1,586)	(276)	(123)	(29)
Capital Reserves Drawdown	(8,472)	(4,162)	0	(1,575)	(1,699)
Formula Grant	(58,710)	(59,943)	(59,943)	(59,943)	(59,943)
Council Tax Income	(39,917)	(43,799)	(46,408)	(48,829)	(51,284)
Total Income/Funding	(141,505)	(145,754)	(144,523)	(149,885)	(147,190)
Net Savings Requirement	0	0	2,970	3,671	4,113

- 3.2 The table shows estimated expenditure based on the budget proposed by and agreed with Cumbria Constabulary. It also includes expenditure for services that will be commissioned with wider partners and the Constabulary in support of the priorities within the Police and Crime Plan. The budget plan provides estimated funding of £145.754m in 2019/20 to support an equivalent level of expenditure. Between 2020/21 and 2022/23 the gap between income and expenditure is expected to increase to £4.113m. This arises from the net impact of inflation and other expenditure pressures compared with the forecast growth in funding from Government Grant and increases in Council Tax Income.

- 3.3 For 2019/20 the Minister of State for Policing and Fire has again, allowed PCCs further flexibility to increase council tax without the requirement to undertake a local referendum. In the funding announcement he gave PCCs the ability to increase the band D precept by up to £24 (for 2018/19 the flexibility was given to increase by £12), for Cumbria this sum would represent an annual increase of 10.29%. In return for this higher level of increase in the council tax precept for policing, the Commissioner has increased the number of Police Officers by 20 (on top of the increase of 25 officers provided in 2018/19) from 1145 to 1165 FTE. The remainder of the budget proposed has been produced on a continuation basis, which means that current levels of service have been maintained over the life of the four year forecast. This includes functions where additional funding was provided in the 2018/19 budget in response to service pressures including an additional 25 officers.

4. 2019/20 Policing Bodies Grant Settlement

- 4.1 On the 13th December 2018 the provisional funding allocations for policing bodies in England and Wales were announced. The funding allocations were based on the 2018/19 levels of funding with an inflationary increase (2.1%) to partially offset the impact of an increase in employers pension contributions. The MTFF assumes that the 2019/20 level of funding will be maintained on a flat cash basis for the 4 years of the MTFF. The final settlement figures were released on 24th January and these were unchanged from the provisional figures. The outcome of the settlement is a formula funding amount of £59.943m for the Cumbria police area for 2019/20.
- 4.2 The settlement confirmed that the current arrangements for formula funding and damping would continue for 2019/20. This means all policing bodies will continue to receive the same proportion of core Government funding as in 2018/19. The Government has indicated that it will re-visit the Home Office police funding formula in the next spending review, which will apply from 2020/21. However, any changes to the funding formula are unlikely to be implemented until 2021/22. In the absence of any firm indications on the timing and effect of any changes to the formula, for the purposes of the budget forecast, it has been assumed that this will have a neutral impact on Cumbria's core grant. The potential that changes to the formula may adversely affect the financial outlook will, however, continue to be recognised in the risk register and will be monitored on an on-going basis.
- 4.3 In addition to the formula grant the Commissioner receives a number of specific grants for policing and crime. The key grants against which most funding is received are the Police Pensions Top-Up Grant (£23m), Home Office legacy Council Tax Grants of £4.85m and a specific pensions grant of £1.2m introduced in 2019/20 to offset increased police officer pension contributions. The Commissioner will also receive income of £0.59m to support responsibilities for commissioning support for victims and restorative justice. For the purposes of financial planning it is assumed that

the legacy, pensions and victims grants will continue at their 2019/20 cash levels for the remainder of the MTF.

- 4.4 In summary, the formula grant settlement has seen a 2.1% increase in grant funding for local policing and crime reduction in Cumbria when compared with what was received for 2018/19, but this has been fully utilised in meeting additional police officer pensions contributions levied in 2020/21. The medium term forecast is currently projecting this settlement for the duration of the 4 years of the medium term financial forecast on a flat cash basis. On this basis, budgeted expenditure exceeds income by £4.1m by 2022/23.

5. Council Tax Income & Other Income

- 5.1 The net budget for the Cumbria Police area is funded by a combination of formula grant and Council Tax income. Income from Council Tax is dependent on a precept levied on each District Council in Cumbria. Total tax income is dependent upon the amount at which the precept is set, the number of properties charged (tax base) and the Police Area's share of any surplus or deficit on District Collection Funds. The Council Tax Base takes account of expected collection levels and discounts. The surplus or deficit position on each District Collection Fund reflects the extent to which actual collection and discounts have varied from the budget. Each precepting authority takes a share of the deficit or surplus pro-rata to their share of the precepts.

Council Tax 'Band B' is the band into which the highest number of properties in Cumbria fall, for this band the increase is £18.62 per annum or 36 pence per week (from £181.02 to £199.64).

- 5.2 The amount of the council tax precept is a decision for the Commissioner, who will take account of the views of the Chief Constable, the Police and Crime Panel and the results of a public consultation in making that decision. This is providing the proposal on the precept is within the Government's Council Tax increase limits. The limits are set by Government each year and inform the percentage increase in Council Tax income allowed before the Commissioner would need to hold a public referendum. The Government has formally announced the Council Tax increase limits as part of the formula grant settlement. As discussed above, the limit for Policing Bodies has been set at a maximum of £24 increase on a band D property for 2019/20. **The Commissioner's budget is based on a precept increase of 10.29%. The financial implications for residents are that the Band D Council Tax amount would increase to £256.68 for 2019/20, an increase of £23.94.**
- 5.3 Council tax income is forecast using the tax base estimates provided by district councils. Calculations of the tax base have taken into account billing authorities' responsibilities to support low income households with their council tax liabilities. This support is delivered by way of local schemes that

provide discounts. The discounts reduce the tax base and therefore also impact precepting bodies. Schemes are subject to review and the Police and Crime Commissioner is required to be consulted with regard to scheme changes. The Commissioner has supported the schemes currently proposed by all districts through the consultation process.

- 5.4 The table below sets out the tax base for each district for 2019/20 and the tax base for the prior year. The table shows that the total tax base is estimated to increase by 1,589 band D equivalent properties. Budgets from 2020/21 are based on an assumed annual increase in the tax base of 0.75%. The actual updated tax base will be incorporated into future budgets in the year it is notified by districts. If the tax base increases above our estimates this will deliver a small budget benefit whilst a decrease from our estimates will have a negative impact on funding.

District	Tax Base 2018/19	Tax Base 2019/20	Increase (decrease)	% change
Allerdale Borough	30,359.94	30,662.47	302.53	1.00%
Barrow Borough	19,290.00	19,520.25	230.25	1.19%
Carlisle City	33,326.46	33,850.60	524.14	1.57%
Copeland Borough	20,523.35	20,557.70	34.35	0.17%
Eden District	20,365.64	20,615.78	250.14	1.23%
South Lakeland District	45,265.99	45,513.47	247.48	0.55%
Total	169,131.38	170,720.27	1,588.89	0.94%

- 5.5 In addition to the recurrent grant and tax base income, the 2019/20 budget is reduced by the net impact of a forecast deficit on the 2018/19 district collection funds. The table below shows the council tax attributable to each district for 2019/20 and the position on each district collection fund (surplus/deficit) for 2018/19.

Council Tax Income 2019/20	Tax base 2019/20	Precept (Band D) £	Council Tax Income £	Declared Surplus/ (Deficit)	Total 2019/20 £
Allerdale Borough	30,662.47	256.68	7,870,442.80	36,248.00	7,906,690.80
Barrow Borough	19,520.25	256.68	5,010,457.77	(37,596.00)	4,972,861.77
Carlisle City	33,850.60	256.68	8,688,772.01	64,008.00	8,752,780.01
Copeland Borough	20,557.70	256.68	5,276,750.44	57,513.00	5,334,263.44
Eden District	20,615.78	256.68	5,291,658.41	(98,323.00)	5,193,335.41
South Lakeland District	45,513.47	256.68	11,682,396.97	(43,436.00)	11,638,960.97
Total	170,720.27	256.68	43,820,478.39	(21,586.00)	43,798,892.39

- 5.6 In addition to formula funding and Council Tax income, the budget includes an amount of one off income to support one off expenditure achieved through a contribution from reserves. The funding available to support the budget is determined annually and takes account of the funding settlement, the need to provide for budget risks and any estimated under spend from prior years. In total the 2019/20 budget is supported by the use of £5.6m of earmarked revenue and capital reserves. The most significant element of this are planned contributions of £4.2m from capital reserves to support the capital programme.
- 5.7 Fees and charges income is estimated to provide £5.2m in 2019/20 in support of expenditure. This income is primarily derived from reimbursements for services and officers provided to support national and regional policing requirements in addition to income from driver awareness training and licensing. This income is generated on behalf of the Commissioner by the Constabulary and is netted off the overall funding provided to the Chief Constable.

6. Expenditure Budget & Savings

- 6.1 Gross expenditure of £145.754m can be supported by budgeted income in 2019/20. However, it is anticipated that in future years funding will fail to keep pace with expenditure pressures meaning that by 2022/23 £4.1m savings will be needed to offset rising costs. The key driver in the level of savings requirements is increasing inflationary pressure. Previously, inflation on pay costs had been held at 2% for the life of the medium term forecast, 2018/19 saw further relaxation of the public sector pay constraint and as a consequence, the medium term forecast has now been adjusted to assume annual pay rises of 3%. Inflation on supplies has also been set at 2% for the life of the medium term forecast in line with Bank of England estimates. Against this backdrop, all expenditure budgets are subject to rigorous scrutiny including an annual budget Star Chamber process, where budget holders are required to justify their budget requirements.
- 6.2 Recognising the need to make further budget savings in the medium term in order to deliver a balanced budget, the Commissioner and Chief Constable have engaged in a number of discussions to consider areas of the budget that will be targeted for reductions in expenditure. Whilst no firm decisions have been made, initiatives, which will be explored as part of the Constabulary's Vision 2025 Strategy include, adjusting the workforce mix, consolidating functions to provide greater resilience, collaboration with other forces and other public sector bodies and realising benefits from investment in new technology.

7. Capital Funding & Expenditure

7.1 In addition to revenue grants the Commissioner also receives a small amount of annual capital funding that supports a capital programme. The programme is developed in consultation with the Constabulary who are the primary user of the capital assets under the ownership of the Commissioner. The budget benefits from £0.372m in capital grant to support capital expenditure from the 2019/20 settlement, which is slightly higher than the capital grant received in 2018/19 of £0.364m. Over recent years the level of capital grant has reduced significantly as a result of national top-slicing from capital allocations, contributing to a widening gap between the requirement for capital expenditure and capital funding. This has to be met by revenue contributions to capital, capital receipts from the disposal of property and the use of reserves. In 2019/20 the revenue budget contributes £1.8m to fund capital, this figure increases to over £3m per annum from 2020/21. Over the four years of the medium term financial forecast, major capital schemes for ICT and estates are primarily funded through one off reserves and capital receipts. Beyond 2023/24 both these sources of funding will be largely exhausted and as a result revenue contributions will be the primary source of capital funding.

8. Reserves and Balances

8.1 Over the life of the financial forecast total reserves are planned to reduce from £18.1m at the start of 2019/20 to £9.1m by end of March 2023, largely due to provision of funding to the support the capital programme. Of the remaining £9.1m, the general reserve of £3m is held for managing financial risks and unforeseen events, budget support, stabilisation and insurance reserves/contingencies of £3.9m provide further resilience, whilst a small number of other reserves are earmarked for specific purposes including pooled/partnership funds.

8.2 The agenda includes a separate paper, **The Reserves Strategy for 2019/20** (see item 11c). The reserves strategy, sets out the purposes for which the individual reserves are held and the planned movements over the life of the medium term budget.

9. Consultation & Value for Money

9.1 The Commissioner has undertaken consultation on the budget and the Police and Crime Plan in line with regulatory requirements. Public consultation has taken place through the Police and Crime Panel and with a specific survey on the Commissioner's website during the budget setting process for 2019/20. A total of 2,161 individuals responded to the survey and the outcome of public consultation has been that the majority of respondents (70.15%) have agreed with the proposal to increase council tax by the maximum allowed amount of just under £24 (10.29%) on a band D

property. The Commissioner has also sought the view of the Chief Constable. The Police and Crime Panel voted to support the Commissioner's proposal at its meeting 21 January 2019 and made no further recommendations.

- 9.2 The Police and Crime Plan is underpinned by a performance framework that supports the Commissioner in holding the Chief Constable to account for delivering priorities and securing value for money. In developing the framework consideration is given to past performance, benchmarking against most similar forces, the level of officer and staffing resources that can be supported by the budget and the impact of the continuing implementation of the savings programme.

10. Summary

- 10.1 This report presents and explains the budget plans for the period from 2019/20 to 2022/23. The 2019/20 budget is balanced based on a precept increase of £23.94 for a band D property which equates to an increase of 10.29%. In future years savings will be required to offset a deficit of £4.1m by 2022/23. The precept proposal will increase the annual Council Tax attributable to the Commissioner by £23.94 for a Band D property resulting in a Band D Council Tax charge of £256.68.

11. Recommendations

- 11.1 Appendix B sets out the budget resolution for decision by the Commissioner in order to formally approve the level of council tax precept. In the context of the budget resolution, it is recommended that:
- a) **The revenue budgets outlined in this report and appendices be approved, having regard to the Local Government Act 2003 report**
 - b) **That the budget requirement for 2019/20 be set on the basis of the amount within the budget resolution at appendix C**
 - c) **The council tax for Band D properties be approved at £256.68 for 2019/20, an increase of £23.94**

12. Acknowledgements

- 12.1 The budget is recommended to the Commissioner with recognition for the hard work and support of the financial services team who provide detailed income and expenditure forecasts and for the work of the Police and Crime Panel in providing challenge and scrutiny to the budget proposal.

Roger Marshall

Joint Chief Finance Officer

20 February 2019

Human Rights Implications

None identified

Race Equality / Diversity Implications

The budget is subject to an Equality Impact Assessment.

Risk Management Implications

There is a legal requirement to set a balanced budget. The Commissioner's strategic risk register recognises the importance of sound financial planning.

Financial Implications

The main financial impacts are described in the paper

Personnel Implications

As identified in the report

Contact points for additional information

Roger Marshall – Joint Chief Finance Officer

Tel: 0300 124 0113 Ext: 48591, email: Roger.Marshall@cumbria.police.uk

Michelle Bellis – Deputy Chief Finance Officer

Tel: 0300 124 0113 Ext: 48853, email: Michelle.Bellis@cumbria.police.uk

Budget for the Commissioner and the budget for the Chief Constable

Description	Base Budget 2018/19 £	Base Budget 2019/20 £	Base Budget 2020/21 £	Base Budget 2021/22 £	Base Budget 2022/23 £
Constabulary Funding					
Police Officer - Pay & Allowances	59,084,911	63,979,207	65,537,895	67,463,296	68,946,238
Police Officer - Contribution to Pension Fund A/c	22,574,000	22,915,000	24,923,000	26,506,000	21,215,000
Police Officer - Ill Health & Injury Pensions	944,199	1,211,319	1,235,546	1,260,257	1,285,463
Police Community Support Officers	3,131,356	2,738,236	2,828,384	2,850,236	2,907,744
Police Staff - Pay & Allowances	20,684,681	22,496,767	22,968,205	23,550,856	24,382,382
Other Employee Benefits	1,160,125	1,341,001	1,367,408	1,386,479	1,414,209
Transport Related Expenditure	2,171,152	2,292,794	2,361,384	2,432,482	2,506,196
Supplies & Services	9,827,801	10,529,007	10,583,016	10,778,177	10,993,741
Third Party Related Expenditure	2,108,051	2,188,724	2,255,685	2,316,279	2,365,029
Earned Income	(4,784,152)	(5,210,621)	(4,845,249)	(4,791,517)	(4,887,348)
Total Constabulary Funding	116,902,124	124,481,433	129,215,273	133,752,544	131,128,653
Commissioner's Budget					
Office of the Police & Crime Commissioner	722,694	749,008	769,858	791,309	813,376
Commissioned Services Budget	2,245,476	2,244,773	2,244,773	2,244,773	2,244,773
Premises Related Costs	4,045,455	4,310,486	4,269,848	4,371,550	4,476,201
LGPS Past Service Costs	492,600	503,400	514,500	525,900	537,500
Insurances & Management of Change	657,446	706,439	717,589	738,589	755,489
Accounting & Financing Costs	11,542,189	7,364,569	4,819,822	6,243,873	6,364,170
Contributions to Reserves Revenue	113,329	183,379	95,884	95,884	95,884
Grants & Contributions	(28,583,878)	(29,940,784)	(31,963,279)	(33,561,208)	(28,285,585)
Grants - Victims & Restorative Justice	(588,000)	(575,661)	(575,661)	(575,661)	(575,661)
Grants - Capital	(363,773)	(371,698)	(371,698)	(371,698)	(371,698)
Interest/Investment Income	(75,000)	(165,000)	(140,000)	(115,000)	(115,000)
Total Commissioner's Budget	(9,791,462)	(14,991,089)	(19,618,364)	(19,611,689)	(14,060,551)
Use of Reserves					
Revenue Reserve Drawdown	(12,307)	(1,586,210)	(275,535)	(123,472)	(29,304)
Capital Reserve Drawdown	(8,471,641)	(4,162,275)	0	(1,575,000)	(1,699,284)
Total Use of Reserves	(8,483,948)	(5,748,485)	(275,535)	(1,698,472)	(1,728,588)
Budget Requirement	98,626,714	103,741,859	109,321,374	112,442,383	115,339,514
Formula Grant & Council Tax Income					
General Police Grant	(58,710,055)	(59,942,966)	(59,942,966)	(59,942,966)	(59,942,966)
Council Tax Precepts	(39,916,659)	(43,798,892)	(46,407,980)	(48,828,829)	(51,283,392)
Total Formula Grant & Council Tax Income	(98,626,714)	(103,741,858)	(106,350,946)	(108,771,795)	(111,226,358)
Net Deficit/Savings Requirement	0	0	2,970,428	3,670,588	4,113,156
Council Tax per Band D Property	£232.74	£256.68	£268.65	£280.62	£292.59
Increase over previous year		£23.94	£11.97	£11.97	£11.97
Percentage Increase		10.29%	4.66%	4.46%	4.27%

Budget Resolution

Local Government Act 2003 Requirements: That the comments of the Joint Chief Finance Officer on the robustness of the estimates and adequacy of balances and reserves be noted and reflected in the decisions made by the Commissioner in making the following budget determination for 2019/20.

Revenue Estimates 2019/20: That the Commissioner's net **Budget Requirement** of £103,741,859 be approved.

Council Tax Base 2019/20: That it is noted that the Council Tax base has been calculated at the amount of 170,720.27 for 2019/20. This is the total of the tax bases calculated by the District Councils as required by regulation.

Budget Requirement: That the following amounts are calculated by the Commissioner for the 2019/20 financial year:

Ref	2019/20 Amount £s	Description
(a)	£145,754,107	being the total of gross expenditure
(b)	£42,012,249	being the total of income from specific grants, fees and charges and transfers from reserves
(c)	£103,741,858	being the Budget Requirement for the year to be met from Council Tax and External Finance
(d)	£59,942,966	being the total the Commissioner estimates will be received from external financing, being the Police Grant
(e)	-£21,586	being the net surplus/(deficit) on district collection funds
(f)	£43,820,478	being the council tax requirement (the budget requirement less the collection fund surplus and external finance)
(g)	£256.68	being the basic amount of Council Tax for the year (the council tax requirement divided by the tax base)

Valuation Bands and Calculation of the amount of Precept payable by each billing authority:

Valuation Band	Amount £.pp	Proportion
Band A	171.12	6/9 ths
Band B	199.64	7/9 ths
Band C	228.16	8/9 ths
Band D	256.68	9/9 ths
Band E	313.72	11/9 ths
Band F	370.76	13/9 ths
Band G	427.80	15/9 ths
Band H	513.36	18/9 ths

Billing Authority	Tax Base 2019/20	Precept (Band D) £	Amount Payable £
Allerdale Borough	30,662.47	256.68	7,870,442.80
Barrow Borough	19,520.25	256.68	5,010,457.77
Carlisle City	33,850.60	256.68	8,688,772.01
Copeland Borough	20,557.70	256.68	5,276,750.44
Eden District	20,615.78	256.68	5,291,658.41
South Lakeland District	45,513.47	256.68	11,682,396.97
Total	170,720.27	256.68	43,820,478.39



Cumbria Office of the Police and Crime Commissioner

Reserves Strategy 2019/20

Public Accountability Conference 20 February 2019

Report of the Joint Chief Finance Officer

1. Introduction and Background

1.1 This reserves strategy is produced and published as part of the overall budget setting process. The reserves strategy meets the statutory requirement to consider annually the level of reserves that should be held to meet future expenditure requirements when setting the budget. The strategy seeks to achieve a balance between pro-actively utilising reserves to support services for our communities and providing financial resilience to meet unexpected events. It sets out the purpose for which reserves are held and the planned movement in reserves over a period of 4 years (the medium term financial forecast period). Our reserves are held for three main purposes. These are:

- ◆ a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing,
- ◆ a contingency to cushion the impact of unexpected events or emergencies,
- ◆ a means of building up funds, often referred to as earmarked reserves, to meet known or predicted pressures or liabilities.

1.2 Over the past year, the level of reserves nationally have become a focus of attention for the Home Office and it is now considered best practice to publish a **reserves strategy**, which covers the MTF 4 year timeframe plus a further 2 years, 6 years in total.

- 1.3 As part of the budget process a capital strategy is produced which includes capital plans over a longer 10 year timeframe, reflecting the cyclical nature of capital expenditure programmes. In order to facilitate the production of the capital strategy and associated capital financing, reserve balances are projected over this longer 10 year timeframe. For this reason it has been determined that a reserves strategy should be produced covering a 10 year timeframe (exceeding the best practice requirements).
- 1.4 The level of reserves should take into account the medium term financial plan and not be based solely on short term considerations. Set out in section 2 below is a description of the reserves held by the Commissioner and the purpose for which they are held. At **Appendix A** a table is provided which sets out the planned movement in reserves over this longer 10 year timeframe to 31 March 2029. **Appendix B** summarises this information graphically.

2. Details of Specific Groups of Reserves

- 2.1 **General Reserves:** The general reserve (police fund) is the main contingency for unexpected events, and the management of cash flow. The level of general reserve is £3m in 2019/20. The amount represents approximately 3% of the net recurrent budget (after specific grants & fees and charges). The level of the general reserve takes account of the risks within the budget as set out in the Joint Chief Finance Officer's report on the robustness of the budget and the level of provision for those risks within specific earmarked reserves and contingencies.
- 2.2 **Earmarked Capital Reserves:** Capital reserves are a combination of general and earmarked revenue contributions that have been set aside to meet the costs of approved capital schemes to be delivered over multiple financial years. Capital schemes are only included within the capital programme on the basis of setting aside funding to meet the expenditure. The policy is that general capital reserves will be maintained at a level to ensure a balanced capital budget for the duration of the medium term financial forecast. The capital reserves currently include a reserve to fund costs associated with the Eden Deployment, centre which is currently being constructed on

the HQ site at Carleton Hall, a reserve to allow consideration of options for the West Cumbria TPA HQ and a balance of general capital reserve. The current capital programme forecasts that these reserves will be almost fully utilised by the end of March 2024.

- 2.3 **Earmarked Revenue Reserves:** Earmarked reserves are held for a number of specific purposes, see paragraphs 2.4 to 2.6 below.
- 2.4 **Budget Stabilisation and Insurance Reserves** are established to smooth the impact of intermittent costs across financial years. This group of reserves includes operational reserves for the Commissioner and Chief Constable, these reserves are to cover any unexpected expenditure that arises during a financial year that cannot be accommodated for existing budgets. The strategy is for these reserves to be replenished if used through the next budget cycle. This group also includes the Chief Constable's contingency, this reserve was established when a more risk based approach to budgeting was adopted thereby removing contingency sums from individual budgets. An Insurance reserve is also maintained to cover the cost of insurance claims below the policy excess.
- 2.5 **Budget Support Reserves** the budget support reserve was established to meet emerging demands and unforeseen items.
- 2.6 **Short-term Project Reserves** primarily fund the one off revenue implications of approved projects and also provide for areas within the budget where there is a liability but the amount or timing is uncertain. This group includes a reserve to cover the future lifecycle costs in relation to the PFI. This group also includes funding in relation to Cumbria road safety initiatives which is ring-fenced to be spent on road safety measures, a reserve to fund the cyclical replacement of body armour and reserves in relation to PCC commissioned services where the approved spend will be drawn down over a number of years.

Roger Marshall, Joint Chief Finance Officer

20 February 2019

Planned Movement in Reserves 2019/20 to 2028/29

Reserves Plan	Note	MTFF Timeframe																							
		Actual	Estimated	Forecast	Net	Forecast	Net	Forecast	Net	Forecast	Net	Forecast	Net	Forecast	Net	Forecast	Net	Forecast	Net	Forecast	Net	Forecast	Net	Forecast	
		Balance	Gain/(Use)	Balance	Gain/(Use)	Balance	Gain/(Use)	Balance	Gain/(Use)	Balance	Gain/(Use)	Balance	Gain/(Use)	Balance	Gain/(Use)	Balance	Gain/(Use)	Balance	Gain/(Use)	Balance	Gain/(Use)	Balance	Gain/(Use)	Balance	Gain/(Use)
		31/03/18	2018/19	31/03/19	2019/20	31/03/20	2020/21	31/03/21	2021/22	31/03/22	2022/23	31/03/23	2023/24	31/03/24	2024/25	31/03/25	2025/26	31/03/26	2026/27	31/03/27	2027/28	31/03/28	2028/29	31/03/29	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s		
2019-2029																									
General Reserve/Police Fund	1	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	
Total General Reserve/Police Fund		3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	0	3,000	
Capital Reserves	2																								
General Capital Reserve		5,922	(2,824)	3,098	(2,834)	264	0	264	0	264	0	264	0	264	0	264	0	264	0	264	0	264	0	264	
Eden Deployment Centre		3,628	(2,300)	1,328	(1,328)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
West Cumbria Estate		3,304	192	3,496	0	3,496	0	3,496	(1,575)	1,921	(1,699)	222	(222)	0	0	0	0	0	0	0	0	0	0	0	
Total Capital Reserves		12,854	(4,932)	7,922	(4,162)	3,760	0	3,760	(1,575)	2,185	(1,699)	486	(222)	264	0	264	0	264	0	264	0	264	0	264	
Budget Stabilisation/Insurance	3																								
PCC Operational Reserve		250	0	250	0	250	0	250	0	250	0	250	0	250	0	250	0	250	0	250	0	250	0	250	
Constabulary Operational Reserves		250	0	250	0	250	0	250	0	250	0	250	0	250	0	250	0	250	0	250	0	250	0	250	
Chief Constable's Contingency		500	0	500	0	500	0	500	0	500	0	500	0	500	0	500	0	500	0	500	0	500	0	500	
Insurance Reserve		1,162	46	1,208	46	1,254	46	1,300	46	1,346	46	1,392	46	1,438	46	1,484	46	1,530	46	1,576	46	1,622	46	1,668	
Total Budget Stabilisation/Insurance Reserves		2,162	46	2,208	46	2,254	46	2,300	46	2,346	46	2,392	46	2,438	46	2,484	46	2,530	46	2,576	46	2,622	46	2,668	
Budget Support Reserves	4																								
Budget Support Reserve		2,469	(341)	2,128	(769)	1,359	0	1,359	0	1,359	0	1,359	0	1,359	0	1,359	0	1,359	0	1,359	0	1,359	0	1,359	
Total Budget Support Reserves		2,469	(341)	2,128	(769)	1,359	0	1,359	0	1,359	0	1,359	0	1,359	0	1,359	0	1,359	0	1,359	0	1,359	0	1,359	
Short Term Project Reserves	5																								
PFI Lifecycle Replacements		289	0	289	0	289	0	289	0	289	0	289	0	289	0	289	0	289	0	289	0	289	0	289	
Finance System Upgrade		6	(6)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Body Armour (Future Roll Out)		141	50	191	50	241	50	291	50	341	50	391	50	441	50	491	50	541	50	591	50	641	50	691	
Cumbria Road Safety Initiatives		291	8	299	(200)	99	(58)	41	(37)	4	71	75	0	75	0	75	0	75	0	75	0	75	0	75	
Injury Pensions		50	(50)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
HQ Security		50	50	100	(100)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Anti Corruption Audit Tool		34	(34)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
CS Change Manager		0	28	28	(28)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Workforce 2025		45	(45)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Business Intelligence		0	113	113	(113)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Red Sigma		0	371	371	(227)	144	(144)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Commissioned Services		1,504	(50)	1,454	(62)	1,392	(74)	1,318	(87)	1,231	(100)	1,131	(100)	1,031	(100)	931	(100)	831	(100)	731	(100)	631	(100)	531	
Total Short Term Project Reserves		2,410	435	2,845	(680)	2,165	(226)	1,939	(74)	1,865	21	1,886	(50)	1,836	(50)	1,786	(50)	1,736	(50)	1,686	(50)	1,636	(50)	1,586	
Total Earmarked Revenue Reserves		7,041	140	7,181	(1,403)	5,778	(180)	5,598	(28)	5,570	67	5,637	(4)	5,633	(4)	5,629	(4)	5,625	(4)	5,621	(4)	5,617	(4)	5,613	
Total All Reserves	6	22,895	(4,792)	18,103	(5,565)	12,538	(180)	12,358	(1,603)	10,755	(1,632)	9,123	(226)	8,897	(4)	8,893	(4)	8,889	(4)	8,885	(4)	8,881	(4)	8,877	

Overall reserves are forecast to fall to just £9.1m over the life of the MTFF, this represents a fall of 50% compared to their current level of £18.1m

Planned Movement in Reserves 2019/20 to 2028/29

