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Police & Crime Commissioner for Cumbria P McCall

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Our reference: PZ

Date 20 January 2022

CUMBRIA POLICE & CRIME COMMISSIONER'S PUBLIC ACCOUNTABILITY CONFERENCE

In line with the COVID-19 Government Guidelines The Police and Crime Commissioner's Public Accountability Conference will take place **remotely** on **Wednesday 16th February 2022**, 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.

If you would like to join the meeting as a member of the public or press, please contact Paula Zutic on paula.zutic@cumbria.police.uk you will then be provided with a copy of the dial in details. Following the meeting papers will be uploaded on to the Commissioner's website.

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 8th December 2021 (copy to follow)

6. FINANCIAL SUMMARY 2021/22 – QUARTER 3 TO DECEMBER 2021

To receive and note the quarter three financial summary which incorporates the Commissioner's revenue budget, Constabulary revenue budget and capital monitoring report for the period up to 31 December 2021 (copy to follow)

7. TREASURY MANAGEMENT ACTIVITIES 2021/22 QUARTER 3 (OCTOBER TO DECEMBER 2021)

To receive & note the OPCC Treasury Management Activities 2021/22 Report – Quarter 3 to December 2021 (copy to follow)

8. DECISION 003-2022 – CAPITAL STRATEGY 2022/23

To receive, note and approve the Capital Strategy 2022/23, comprising:

A) **CAPITAL STRATEGY 2022/23 (inclusive of prudential indicators 2022/23 to 2026/27** (copy to follow)

B) **CAPITAL PROGRAMME 2022/23 TO 2031/32** (copy to follow)

C) **TREASURY MANAGEMENT STRATEGY STATEMENT 2022/23 (inclusive of Investment Strategy, Borrowing Strategy, MRP Statement)** (copy to follow)

9. DECISION 004-2022 - 2022/23 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 (copy to follow)**

B) **BUDGET 2022/23 AND FINANCIAL FORECASTS 2023/24 TO 2026/27 (copy to follow)**

C) **RESERVES STRATEGY 2022/23 (copy to follow)**

CUMBRIA POLICE & CRIME COMMISSIONER
PUBLIC ACCOUNTABILITY CONFERENCE

Minutes of the Public Accountability Conference held on
Wednesday 8th December 2021 Via Teams
at 10:00am

PRESENT
Police & Crime Commissioner - Mr Peter McCall (Chair)

Also present:
Deputy Chief Constable (Mark Webster);
Chief Finance Officer (Roger Marshall);
OPCC Chief Executive (Vivian Stafford);
Chief Superintendent (Lisa Hogan);
Detective Chief Superintendent (Dean Holden);
Head of Marketing & Communications (Helen Lacey);
OPCC Communities Engagement Officer (Sarah Bromiley);
OPCC Partnerships and Strategy Manager (Nicola Broomfield);
OPCC Executive Support Officer (Paula Zutic) – taking minutes;
OPCC Administration Assistant (Bronwyn Musgrave) – observing;

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

001. APOLOGIES FOR ABSENCE
Apologies for absence were received from the Chief Constable (Michelle Skeer); and T/Assistant Chief Constable (Jonathan Blackwell);

002. QUESTIONS FROM MEMBERS OF THE PUBLIC
No questions had been received from the public.

003. URGENT BUSINESS AND EXCLUSION OF THE PRESS AND PUBLIC
There were no items of urgent business to be considered by the Committee.

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 3rd November 2021, 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 3rd November 2021 be confirmed as a correct record and signed by the Chair;

A discussion took place regarding the order of the Agenda for the meeting, and agreed that the order of Item 6 and Item 8 would be swapped, as Chief Superintendent Hogan needed to leave early to attend another meeting.

008. THEMATIC PRESENTATION - VIOLENCE AGAINST WOMEN & GIRLS

The report was presented by Chief Superintendent Lisa Hogan on a 'by exception' basis.

Cumbria Constabulary already delivers an array of services in response to offences such as domestic abuse, sexual crime and patterns of behaviour, and has identified seven separate strands of violent crime and appointed each strand with a strategic lead who is responsible for the effective delivery of that strand.

Violence against Women and girls will form an eighth strand of business for Cumbria Constabulary, as it is an area that deserves special attention and focus, due to the acknowledgement and understanding that offences against women and girls is increasing and disproportionate.

The VAWG action plan has recently been created, each strand owner has a number of actions against the 3 national objectives – Safer Spaces, Relentlessly pursue perpetrators and improve trust and confidence

Crime data for the period 01/11/202 – 01/11/2021 was discussed.

- Every call or contact made directly to the Constabulary is answered by a Police Officer. The Constabulary use the THRIVESC model to appropriately assess each contact to ensure the right resource and response is provided.
- THRIVESC stands for Threat, Harm, Risk, Investigation, Vulnerability, Evidence, Safeguarding and Crime.
- This is key for assessing calls for service for VAWG related offences, as it ensures we cover everything at first contact and allows us to signpost to the most appropriate resource.
- All VAWG related calls for service are taken seriously and treated as a priority

- 43.5% of all crime reported in Cumbria for this period has a female victim identified
- Of the total 6,030 Domestic Violence crimes reported, 70% of these are female victims
- 62.3% of all stalking and harassment crimes in Cumbria are female victims.
- 81.1% of all sexual offences reported in Cumbria are female victims

From the 1st November 2020-2021 there has been an increase in stalking offences but have seen a reduction in Domestic Violence; Harassment Cases and Malicious Communications.

A significant increase in CSE related crime has been identified as an issue with Officers use of the CSE marker on crimes. In many of these cases the CSE marker is not appropriate. Relevant steps have since been taken to rectify this, including a process where a gatekeeper has been identified to assess each crime where CSE marker is placed, to ensure it has been used appropriately.

The Commissioner asked for an explanation for the rise in stalking cases from 440 last year to 708 this year as it is a huge difference?

Chief Superintendent Hogan explained that it is due to a combination of factors . The confidence people have in reporting these offences has increased but the number of offences being committed is also on the rise. Covid has impacted the crime types and stalking seems to be a more talked about offence.

At the point of contact, the offence is reported as stalking, but multiple offences could be identified. It could be 1 victim with a number of crimes.

Any stranger type stalking (being followed in a public space) would be raised in the D.M.M. (daily management meeting) and the Head of Crime would have oversight of that.
It was acknowledged that there has been a lot of pro-active work to encourage reporting. On-line stalking interactions are also reported as crimes (online crimes have increased to 531 from 488 last year). Social media platforms are used as a form of communication but this does not downplay the seriousness of it and it is no less distressing. Online bullying can result in catastrophic outcomes (such as suicide). Crimes are recorded in line with the national crime data integrity / crime recording practices.

The Commissioner asked that online harassment seems to be serious enough to be recorded as a crime - how many of these types of crimes result in a proactive investment and how many go further into arrests?

Chief Superintendent Hogan and Detective Chief Superintendent Holden reported that even if the online harassment is low-level bullying this still gets recorded as a crime and then investigated. If the assessment is made that the offence is low-level then it will be passed to the Neighbourhood Policing or Child Centred Policing but if High-level is determined, then the offence will be passed to an Inspector.

The number of active cases is high compared to positive outcomes, this can be due to the complexity of the case as the victim or perpetrator could have mental health, be involved with Social Services. There were a high number of offences committed and reported during Covid in Cumbria by people here temporarily on staycation however, they moved back home after it being reported therefore it has a hindrance on the investigation. Forensics cases get priority over low-level cases as they take longer, & the Constabulary is looking to increase examiners within DFU. Due to Covid there has been a delay in results and outcomes.

The Commissioner noted that the rape of a female under 16 columns of the presentation was very concerning.

It was noted that positive outcomes of rape offences are poor nationally. The Director of Public Prosecutions (DPP) is coming to look at a pilot scheme to convert crimes into charges. There is a joint national action plan and lots of work going on behind the scenes. Cumbria is one of the first forces regionally & nationally to have this, and are already seeing some tangible benefits. The Deputy Chief Constable advised that he can provide some more detailed information to the Commissioner in relation to this outside of this meeting, if required.

During the pandemic, Op Daccre was introduced to provide further support to the most vulnerable DV victims, by building rapport with officers and detectives, working with agencies to provide support and encourage reporting of incidents.

Quarterly rape scrutiny panels are held jointly with CPS and other partners where rape cases are looked at, both successful prosecution and those that are NFA'd either by Police or CPS – the purpose of the Panel is to identify learning and area's for improvement in RASSO cases which can be shared across all of the organisations involved.

The purpose of the rape surgery pilot is to provide early informal advice to support police decision making, but it also provides an opportunity for the Police and CPS to agree investigative strategies to ensure issues in the case are addressed prior to the case being submitted for charging advice, reducing the necessity for multiple action plans and speeding up the investigation and decision making process. This will improve the quality and timeliness of investigations, increase referral rates to CPS and ultimately the outcomes and convictions Through investigative quality improvements and forcewide training, the Constabulary have introduced a number of mandatory actions at each stage (OPENS, PLANS, HANDOVER, CLOSED, FILE etc) on each crime to ensure every victim gets the same high level or service from Officers.

The Constabulary have quality assurance processes in place, crimes and investigations are checked at every stage by Sgts, Inspectors and Crime Management Support Unit (CMSU)

Offender Management is a top priority for Cumbria Constabulary. The Chief Constable is the NPCC lead for MOSOVO and MAPPA. This area of business is well resourced and has appropriate governance and oversight. MOSOVO work very closely with partner agencies such as the Probation Service.

Peter McCall

The Constabulary also has the benefit of an Integrated Offender Management Team (IOM). This team works to the national IOM refresh programme to identify and adopt those serious acquisitive offenders in the community who pose the greatest likelihood of reoffending. The team works closely with partner agencies including Probation to divert these offenders away from an offending pathway, this is done by addressing the root cause of their offending such as housing, drugs, domestic abuse, mental illness etc.

The Multi Agency Public Protection Arrangement (MAPPA) team work with MOSOVO to hold formal meetings with partner agencies in relation to violent, sexual and other dangerous offenders. These meetings result in a documented multi-agency risk management plan. Agencies, including the Constabulary, will be held to account for any MAPPA actions raised as appropriate governance is provided by the MAPPA Strategic Management Board.

The Constabulary follows the national guidance around 'Sarah's Law' or the Child Sex Offenders Disclosure Scheme (CSODS). In 2020 there were 25 CSODS applications and 20% of those resulted in a disclosure being made.

All offenders who are convicted of a qualifying sex offence will be considered for a Sexual Harm Prevention Order. In 2020 44 such orders were granted by the court. The Constabulary use sexual risk orders in a similar way to SHPOS's for those offenders who do not have a qualifying conviction. Two SRO's were issued in 2020 and we have 4 already in 2021 – this is an area that the Constabulary wish to increase in future.

Through local focus hubs, partnership working is common practice and hub referrals will focus on VAWG locations, which will be adopted as community priorities.
The 'Ask for Angela' campaign has been launched through partnership working with licensing and local Councils.
A dedicated safeguarding hub works closely with partners such as DV support agencies, social services, early help teams, family liaison to provide a wide range of support and safeguarding measures to victims of domestic and sexual abuse.
Funding has been secured from the OPCC for the North TPA, to work on the provision of Street Marshalls

The constabulary's plan is to relaunch the 'Ask for Angela' campaign and give confidence to Women and Girls to prevent offences. There has been funding secured through the OPCC, need to make best use of the funding given and do a refresh of night-time economy, build confidence and reassurance in relation to reporting offences. The Constabulary are doing a lot of campaigns currently and are planning to put out a message in relation to spiking, to build confidence and reassurance.

The Commissioner asked if there have been any reports in Cumbria of people being injected with Spiking?

There have been several cases of spiking reported which is unusual and appears to be a new trend in Cumbria. In the last 4/5 months there has been 3 spiking offences reported. 2 of them

refused a toxicology and the other accepted. There is robust CCTV in place, drugs are easily accessible on the streets but are also very easy to obtain online.
It was noted that all spiking cases in Cumbria have come under the scrutiny of the Head of Crime, and work is on-going with licenced premises.

Following a discussion, the Commissioner thanked Chief Superintendent Hogan for her report & the report was noted.

RESOLVED, that

(i) The presentation be noted.

007. THEMATIC PRESENTATION – DRUG MISUSE

The report was presented by Detective Chief Superintendent Dean Holden, on a 'by exception' basis.

Drugs crime figures are dictated by Crime Recording Rules which state that a crime cannot be recorded until there is evidence of a substantive crime having been committed – therefore investigations prior to charge are not reflected in the figures. For that reasons 2021 figs are a work in progress.
There are relatively consistent levels across the 3 TPA's with slightly higher numbers in West due to a number of operations.

Year on Year comparison data:
1st Dec 2019 – 1st Dec 2020: 63 Drugs Death
1st Dec 2020 – 1st Dec 2021: 40 Drugs Deaths (-33%)

Context:
- Ageing cohort of long standing drug users being susceptible to OD, linked health issues.
- Increase use / abuse of other drug combination – accessibility (online) to illicit pharmaceuticals.
- Increase in wider health impact factors (anxiety, MH etc).
- Increase in recreational drugs use (cocaine) and illicit pharmaceuticals available on street / online.

Response:
- Established county wide multi-agency Drug Harm Prevention Group
- Sustainable 'prevent and divert' intervention and messaging – Public Health, third sector and police.
- Improved data enabled response to identify prevent / reduction opportunities.
- Combined enforcement and prevent approach to disrupt illicit drugs markets.

There are consistent figures over last year from the previous year but there has been an increase in drug supply. The increase seems to be centred around Barrow, Workington, and Carlisle. The Constabulary have strong links with Merseyside and Manchester with the intention of using intervention to prevent coming into Cumbria.

Cumbria Police adopts the Identify, Disrupt, Deter, Safeguard model to CL; assessment and response is managed at a local level through the County Line and Organised Exploitation (CLOE) meetings; at the meetings, vulnerability / risk is discussed and actioned. Where SG is required an address or person will be visited by police and / or partners to assess and provide support, signpost or safeguard. Multiple County Lines Proactive Operations are executed in each area (predominantly in South) each year.

FIB work closely with National and Regional Law Enforcement (NCLCC, NWROCU, Merseyside – Op Toxic) to target County Lines:

- 4 x interforce mass deployments (Operation Medusa) utilising staff from Merseyside and Cumbria to conduct coordinated activity in regards to County Lines offenders. This has resulted in multiple arrests, seizures and prosecutions
- 3 x national intensification weeks across the county to target drugs which again resulted in multiple arrests/seizures and prosecutions
- 4 x County Lines permanently shut down due to disruption work and targeted activity by the South CSOC team resulting in lengthy custodial sentences
- Local intelligence units have obtained and actioned S.23 drugs warrants on a near weekly basis acting on community intelligence

The aim of the Youth Substance Misuse Officers (YSMO) is to engage with young people under the age of 18 who show substance misuse needs, with a particular emphasis on alcohol cannabis and New Psychoactive substances. When a referral is made and the young person consents/engages an assessment of the child's alcohol/substance misuse is completed with the aim to deliver appropriate education, harm reduction advice relating to alcohol/ substance misuse and related risk taking behaviour. Referrals can be made by any agency and young people can self-refer. Referrals are made automatically if the child is involved in ASB and has an IYC form submitted where they are found in possession of or under the influence of alcohol or under the influence of drugs. Child Centred Policing team also refer when they identify a need with the children they are working with and we also refer for simple possession offences as a CR outcome.

It is hoped that there will be a North west element of the ROCU (Regional Organised Crime Unit) to enable access to services more readily, it was acknowledged that there has been good support from them in the past.

Following a discussion, the Commissioner thanked Detective Chief Superintendent Holden for his report, and the report was noted.

RESOLVED, that

(i) The report was noted;

006. PERFORMANCE PRESENTATION

The report was presented by Chief Superintendent Lisa Hogan, on a 'by exception' basis.

A lot of the discussion around performance had already taken place naturally throughout the course of the meeting. It was acknowledged that a newly established command has been created to manage & improve performance management & HMICFRS and ensure compliance around best practice and the national vulnerability action plan.

In Cumbria, there has been a crime reduction of 6% which means 2149 fewer victims, and ASB has reduced by 8%. There have been 5311 positive outcomes out of 32923 cases this year, ongoing cases are high due to spikes and change in demands of types of crime.

- Positive outcome rate – 16.1% excluding ongoing investigations
- DA positive outcome rate has decreased to 13.7%
- Challenges looking forward – changing demand and complexity – Day In The Life Of (DILO) and resource Allocation Modelling

Collision Reduction:
- 173 KSI Collisions recorded YTD – 21.7% reduction
- 379 KSI casualties recorded YTD – an increase over the previous 3 years, indicative of changing motorist demographic
- 982 Slight and damage only collisions – 13.4% reduction

The Deputy Chief Constable advised that Cumbria Constabulary perform better than most forces but are not content with the level of performance. Spikes in demand do cause an issue and the peaks need to be managed, but the DCC assured the Commissioner the progress was being made.

Following a discussion, the report was noted.

RESOLVED, that

(i) The presentation to be noted;

Meeting concluded at 12:30

Signed: ______________________________ **Date:** ______________________________

The Police and Crime Commissioner for Cumbria

Financial Summary 2021/22 as at 31 December 2021 (Quarter 3)

Public Accountability Conference 16 February 2022

Group Revenue Budget

Underspend £100k (0.09%)

Increased Expenditure +£473k (0.30%),

Increased Income -£573k (1.30%)

See page 2

Constabulary Revenue Budget

Underspend £11k (0.01%)

Increased Expenditure £516k (0.36%),

Increased Income £527k (8.57%)

See pages 3-4

Capital Budget

Budget / Forecast £6,758k

Slippage to future years £1,410k

Budget changes approved £998k

Budget changes to note £15k

See page 7

Op Lectern - Covid 19

The forecast spend on the constabulary COVID 19 response (Op Lectern) is £488k

See page 5

Operation Uplift

The forecast spend on operation uplift is £3.673m

See page 6

Treasury Management

Investment balance 31/12/21 £16.242m ↓

(Down 26% from £21.412m at 30/09/21).

The current investment income forecast is £2k against a budget of £10k and reflects the extremely low interest rates currently being received whilst prioritising the security of the principal funds.

PCC Revenue Budget 2021/22 as at 31 December 2021

Description	Revised Budget 2021/22 £'000s	Provisional Outturn 2021/22 £'000s	Provisional (Under)/ Overspend 2021/22 £'000s	Provisional (Under)/ Overspend 2021/22 %	Projected (Under)/ Overspend @ SEP-21 £'000s	Change in Forecast SEP-21 to DEC-21 £'000s
Office of the Police and Crime Commissioner	820	792	(28)	-3.41%	(14)	(14)
Other PCC Budgets	(25,243)	(25,304)	(61)	0.24%	(2)	(59)
Movements To / (From) Reserves	652	652	0	0.00%	0	0
Total OPCC Budgets	**(23,771)**	**(23,860)**	**(89)**	**0.37%**	**(16)**	**(73)**
Funding Provided to the Constabulary	138,882	138,871	(11)	-0.01%	(187)	176
Net Expenditure	**115,111**	**115,011**	**(100)**	**-0.09%**	**(203)**	**103**
External Funding	(115,112)	(115,112)	0	0.00%	0	0
Total	**(1)**	**(101)**	**(100)**		**(203)**	**103**

Change September to December

The change in forecast from September 2021 to December 2021 is an increase of £103k. The main reasons for this change is in relation to a forecast reduction of the Constabulary underspend (£176k) and relates to increases in police officer pay and overtime, other employee costs, including training, and transport costs. These are somewhat offset by reductions in PCSO, staff costs and ill health retirements and an increase in forecast income in respect of mutual aid. Offsetting this is a reduction in PCC costs in relation to premises which in the main is as a result of reduced utility costs.

The balance on the police property act fund as at 31 December 2021 was £54k. Details of the awards made from this fund to community bodies can be found on the Commissioners website. https://cumbria-pcc.gov.uk/what-we-do/funding/property-fund/

Expenditure & Income Variances

Office of the PCC -£28k Includes reductions in staffing and other office running costs (-£40k) and transport cost (-£3k) offset by increases in training & conferences (+£9k) and external audit fees (+£7k).

Other PCC Budgets -£61k

Reduced expenditure on Premises -£63k mostly as a result of reduced expenditure on utilities -£101k, rent and rates -£7k offset by increased cleaning +£45k as a result of the Covid-19 pandemic.

Increased insurances +£57k as a result of premium increases at renewal.

Reduced LGPS past service pensions costs £9k.

Additional grant income -£54k as a result of apprenticeship incentivisation.

Reduction in investment income £8k.

Funding Provided to the Constabulary Underspend £11k The forecast Constabulary position for 2021/21 is close to budget. The underspend in the main arises from underspends on police staff pay as a result of higher than anticipated vacancy levels, other employee expenses, transport and supplies & services and forecast additional income offset by overpends on police officer pay a result of the Constabulary getting ahead of the operation uplift target and pressure being experienced on overtime budgets across the Constabulary.

Pages 3 and 4 provide a more detailed analysis of the Constabulary revenue budget position.

Details of the constabulary budget position are included on the following pages.

Constabulary – Revenue Budget 2021/22 (1)

Constabulary - Objective Analysis

Command / Directorate	Revised Budget £'000s	Forecast Outturn £'000s	(Under) / Overspend £'000s	(Under) / Overspend %	SEP-21 Variance £'000s	Change in Variance £'000s
Staff Pay						
Core Police Pay	89,363	90,262	899	1.01%	365	534
Core PCSO Pay	1,887	1,910	23	1.23%	56	(33)
CORE						
Chief Officer Group	1,196	1,120	(76)	-6.36%	(18)	(58)
Crime & Safeguarding Command	10,602	10,661	59	0.56%	187	(128)
Operations & Neighbourhood Policing Command	7,473	7,441	(32)	-0.44%	(75)	43
Insight & Performance Command	2,043	2,066	23	1.15%	(38)	61
Corporate Support Directorate	8,844	8,465	(379)	-4.29%	(494)	115
Digital Data & Tech Command	9,915	9,406	(509)	-5.13%	(428)	(81)
Legal Services Directorate	235	235	0	-0.11%	5	(5)
Marketing & Communications	614	582	(32)	-5.14%	14	(46)
SECONDED	**(23)**	**(23)**	**0**	**1.25%**	**4**	**(4)**
EARMARKED	**1,113**	**1,115**	**2**	**0.18%**	**178**	**(176)**
PROJECT	**5,620**	**5,631**	**11**	**0.20%**	**57**	**(46)**
Grand Total	**138,882**	**138,871**	**(11)**	**-0.01%**	**(187)**	**176**

Constabulary - Subjective Analysis

Description	Revised Budget 2021/22 £'000s	Forecast Outturn 2021/22 £'000s	Forecast (Under)/ Overspend 2021/22 £'000s	Forecast (Under)/ Overspend 2021/22 %	Forecast (Under)/ Overspend @ SEP-21 £'000s	Change from SEP-21 to DEC-21 £'000s
Constabulary Funding						
Police Officers	98,241	100,135	1,894	1.93%	1,173	721
Police Community Support Officers	1,894	1,922	28	1.48%	62	(34)
Police Staff	25,673	24,824	(849)	-3.31%	(754)	(95)
Other Employee Budgets	2,861	2,685	(176)	-6.15%	(354)	178
Transport Related Expenditure	2,380	2,187	(193)	-8.11%	(255)	62
Supplies & Services	11,410	11,041	(369)	-3.23%	(397)	28
Third Party Related Expenses	2,573	2,754	181	7.03%	189	(8)
Total Constabulary Funding	**145,032**	**145,548**	**516**	**0.36%**	**(336)**	**852**
Income	(6,150)	(6,677)	(527)	8.57%	149	(676)
Total Constabulary Funding Net of Income	**138,882**	**138,871**	**(11)**	**-0.01%**	**(187)**	**176**

Key Themes:

- Overall forecasted expenditure is close to budget at the moment.
- Overtime pressures for officers and, to a lesser extent, staff in all Commands / Directorates.
- Additional costs of Operation Uplift as a result of accelerated recruitment, see page 6 for more detail.
- Savings on police staff pay as a result of higher than forecast vacancies -£849k.
- Forecast financial impact of Operation Lectern (direct and indirect) is an overspend of £89k, see page 5 for more detail.
- In addition there are underspends across other non staffing budgets and additional income from mutual aid.

Variance Narrative

A high level explanation of the main budget variances by department/command is provided on page 4

Capital Financing Decision

The revenue budget for 2021/22 currently includes budgets set aside on a non recurrent basis for, covid recovery £250k, Innovation Fund £250k and capital associated with Op. Uplift £500k. Although these budgets are forecast to be fully spent, to date only a small proportion is firmly committed. Depending on the final outturn position at year end, a decision may be taken redirect these funds to part finance in year capital spend on the kennels and HQ alterations in relation to training facilities or to carry forward the budgets to facilitate Covid recovery work.

Constabulary – Revenue Budget 2021/22 (2)

Central Payroll Budgets

Police Officer Pay +£899k Restructure, including increase in senior ranks (Chief Supt, Supt etc (£600k), forecast increase in actual FTE numbers above budgeted levels, employer's NI on additional overtime (£100k) etc.

PCSO Pay +£23k Starting the year +3 FTE above budgeted estimate and changes to leaver profile during 2021/22

Seconded, Earmarked Funds and Projects

Seconded +£0k Forecast on budget.

Earmarked Funds +£2k Forecast overspend on **Appleby Fair** (+£211k) due to additional cost of officer overtime. Forecast loss of income from Driver Awareness Scheme (**Safety Camera Partnership** +£219k). Income from Mutual Aid including COP26 (-£295k). Op Lectern (-£125k). Forecast underspend on Junior Citizen Scheme (£-7k).

Project Budgets +£11k Implementation of new Constabulary website / On-line home +£22k due to additional project management costs. Front loading of recruitment of Op Uplift officers, offset by reductions in staff costs +£135k, CCTV +£8k. Reduced costs of BI Publisher project -£46k, ICT Projects -£65k and Leadership & Skills Project -£44k.

CORE Commands / Directorates

Legal Services +£0k Increased costs awarded to police income +£28k, increased court and legal costs +£11k less reduced training -£1k, reduced printing -£1k, additional reimbursed income -£3k, reduced spend on staff pay -£32k

Marketing and Communications -£32k staff costs +£23k, print unit equipment and materials -£5k, training -£6k, accommodation, subsistence and travel -£2k, advertising (non-staff) -£27k, reduced spend on website -£15k.

CORE Commands / Directorates

Chief Officer Group -£76k police staff pay -£12k, travel costs -£13k, constabulary efficiency savings -£7k, reduced payments to third parties -£67k, NPCC contributions +£10k, awards +£6k, increased training & conferences +£8k.

Crime & Safeguarding +£59k Staff pay +£18k, police overtime +£242k, staff overtime +£24k, operational equipment +£43k, NW forensic collaborations +£140k, income from other forces +£94k. Offset by savings on training -£84k, costs -£44k (appropriate adults), confiscated animals -£75k, custody medical -£27k, abnormal loads income -£29k and additional POCA income -£242k.

Operations & Neighbourhood Policing -£32k police overtime +£261k, staff overtime +£44k (CCR), custody costs +£38k, operational equipment +£17k, office equipment +£36k, consultancy fees +£10k, accommodation & subsistence +£19k, other expenditure +£9k and reduced income fees and charges and football +£33k. Offset by reduced spend on staff pay -£242k, fuel and other travel costs -£124k, clothing and uniform -£135k.

Insight & Performance +£23k Increased spend on agency staffing +£17k, subscriptions +£32k, printing +£4k, CHIS expenses +£19k, firearms licensing income +£51k. Offset by reduced spend on staff pay & overtime -£38k, training -£10k, fuel and other transport costs -£15k, comms auto charges -£20k, accommodation & subsistence -£3k and consultancy fees -£14k.

Corporate Support Directorate -£379k Reduced spend on staff pay -£90k, recruitment costs -£30k, training costs -£33k, fuel and other travel costs -£29k, training income -£210k, other trading income -£89k, consultants fees -£10k, office equipment -£8k, catering charges -£10k, uniform -£3k, banking costs -£5k. Partially offset by officer overtime +£5k, staff overtime +£8k, pensions +£41k, audit fees +£4k, accommodation & subsistence +£77k.

Digital Data and Tech Command -£509k Reduced spend on staff pay -£268k, computing & communications -£236k, accommodation, subsistence and travel -£22k, reimbursement of costs -£65k offset by increases on PNC / PND and national ICT charges +£64k and reduced disclosure income +£20k.

Operation Lectern (Covid 19 response) 2021/22

The current forecast financial impact in respect of the Constabulary Covid-19 response is set out below.

Analysis Lvl 1	Subjective Analysis Lvl 1	Adjusted Budget	Forecast Outturn	Forecast Variance
Expenditure	Police Officer Pay	39,474	38,575	(899)
	Police Staff Pay	175,546	141,990	(33,557)
	Police Officer Overtime	210,526	204,723	(5,803)
	Police Staff Overtime	0	20,500	20,500
	Premises Related Expenditure	0	55,263	55,263
	Transport Related Expenditure	0	1,177	1,177
	Supplies & Services Related Expenditure	133,099	25,977	(107,122)
	Internal Recharges Expenditure	0	200	200
Expenditure Total		558,645	488,405	(70,240)
Grand Total		558,645	488,405	(70,240)
Home Office COVID Grants Total		(489,099)	(489,099)	0
Total Effect of COVID-19 on Constabulary		69,546	(694)	(70,240)

Subjective Analysis Lvl 1	Adjusted Budget	Forecasted Actual	Forecasted Variance
Supplies & Services Related Expenditure			
Office Equipment, Furniture & Materials	0	7,844	7,844
Catering Contract	0	0	0
Clothing, Uniform & Laundry	0	15,048	15,048
Police Doctors & Surgeons	0	1,000	1,000
Communications & Computing	0	1,085	1,085
Specialist Operational Equipment (incl Dogs & Firearms)	0	1,000	1,000
Other Miscellaneous	133,099	0	(133,099)
Supplies & Services Related Expenditure Total	**133,099**	**25,977**	**(107,122)**

Breakdown of main Op Lectern costs:

- Officer pay and overtime on Covid enforcement activities. £243k.
- Staff pay and overtime, supporting posts £162k.
- Clothing, Uniform & Laundry £15k of PPE equipment.
- Premises Cleaning etc. £55k
- Other Miscellaneous £13k

Home Office Grants relates to Surge Grant for 2021/22 of £489k.

The Combined Impact of Operation Lectern is a net increased cost of £89k.

Made up of covid related spend £488k, less surge funding of £489k = -£-1k plus loss of income £260k less savings on core budgets £170k.

Impact on Core Budgets

With reduced activity levels in some areas the following savings on core budgets have been made:

- Vehicle Hire & Travel Costs £70k
- Vehicle Fuel £100k
- **Total Savings £170k**

These savings are offset by a forecast reduction in routine income of £260k on the following budgets:

- Driver Awareness Scheme Income £230k
- Vehicle Recovery Income £10k
- Football, concerts and other event income £20k
- **Total Loss of Income £260k**

Operation Uplift 2021/22

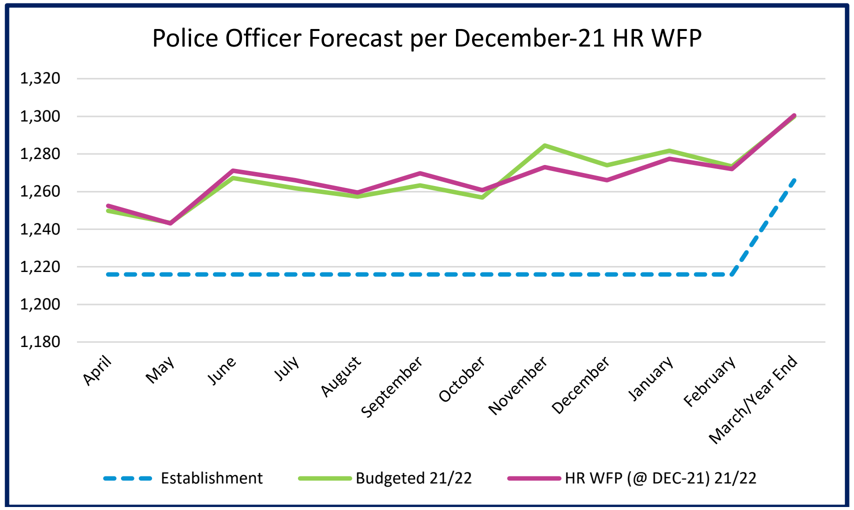
Analysis Lvl 1	Subjective Analysis Lvl 1	Adjusted Budget	Forecast Outturn	Forecast Variance
Expenditure	Police Officer Pay	3,009,096	3,178,068	168,972
	Police Staff Pay	518,892	331,993	(186,899)
	Police Officer Overtime	0	76,947	76,947
	Police Staff Overtime	10,000	5,157	(4,843)
	Other Employee Expenses	0	1,972	1,972
	Restructure, Training & Conference Costs	0	0	0
	Premises Related Expenditure	0	0	0
	Transport Related Expenditure	0	4,889	4,889
	Supplies & Services Related Expenditure	0	73,810	73,810
Expenditure Total		3,537,988	3,672,835	134,847
Grand Total		3,537,988	3,672,835	134,847

The forecast expenditure outturn on Operation Uplift reflects having recruited an additional 51 FTE officers by 31st March 2021 and a forecast additional 50 by 31st March 2022. The quoted figures exclude a further £1.223m of expenditure in relation to recruitment of officers over and above the Operation Uplift target and an additional 9 Sergeant post which are forecast to be incurred in 2021/22 and have largely been budgeted.

The forecast overspend on police officer pay predominantly relates to changes in profiled recruitment of Uplift cohorts, the allocation of two police officer trainers and payments for unsociable hours.

Staffing in support of the additional recruitment and servicing the additional officers underspent by £187k. This relates to reduced staff trainer requirements.

Police Officer WFP



For 2021/22, the forecast actual FTE (red line) is very close to the original budget set in Feb'21 (green line). However, the creation of several higher rank posts (Insp and above), results in a forecast overspend on Police Officer pay, Police officer numbers are currently forecast to reach 1,300.58 FTE at Mar'22, 34.58 above the budgeted establishment figure of 1,266 FTE.

Constabulary – Capital Budget 2021/22

Capital Programme 2021/22	Original Approved Budget £000s	Impact of 2020/21 Outturn £000s	New Schemes Approved £000s	Budget Changes Approved £000s	**Approved Adjusted Budget £000s**	Actual Expenditure to Dec-21 £000s	Forecast Capital Outturn £000s	**Forecast Variation £000s**
ICT Schemes								
ICT End User Hardware Replacement (002x)	862	53	0	(150)	**765**	107	448	**(317)**
ICT Software Application Replacement (003x)	0	6	0	0	**6**	0	6	**0**
ICT Core Hardware Replacement (004x)	1,884	190	0	(592)	**1,482**	42	952	**(530)**
ICT ESN / Radio Replacement (005x)	281	257	0	(24)	**514**	196	264	**(250)**
ICT Infrastructure Solution Replacement (Projects)								
- Case & Custody	39	0	0	0	**39**	0	39	**0**
- Control Room Futures	459	193	0	0	**652**	24	100	**(552)**
- Police Works / Silverlite	0	0	0	317	**317**	0	317	**0**
- Unspecified change to National systems (D)	54	0	0	0	**54**	0	54	**0**
- National ANPR / ANPR replacements	80	0	25	20	**125**	45	125	**0**
- Vetting Software	0	0	30	0	**30**	5	30	**0**
- Digital Policing Project	34	7	0	0	**41**	26	28	**(13)**
General Slippage	(1,000)	0	0	0	**(1,000)**	0	0	**1,000**
Total ICT Schemes	**2,693**	**706**	**55**	**(429)**	**3,025**	**445**	**2,363**	**(662)**
Fleet Schemes								
2020/2021 Slippage	0	890	0	0	**890**	1,618	890	**0**
2021/2022 Approved Strategy	1,683	0	0	127	**1,810**	293	1,810	**0**
Reimbursed Vehicles	85	0	0	0	**85**	0	0	**(85)**
Total Fleet Schemes	**1,768**	**890**	**0**	**127**	**2,785**	**1,911**	**2,700**	**(85)**
Estates Schemes								
Kendal Police Station - Roof	0	56	0	0	**56**	0	0	**(56)**
HQ Dog section - Roof	0	70	(70)	0	**0**	0	0	**0**
UPS HQ	0	44	0	(26)	**18**	18	18	**0**
Eden Deployment Centre	0	0	0	0	**0**	(86)	0	**0**
West Cumbria Estate	250	0	0	0	**250**	0	20	**(230)**
Barrow Custody - CCTV Digital rollout	50	0	0	0	**50**	0	0	**(50)**
Gas Suppression	0	0	0	0	**0**	(2)	(2)	**(2)**
Dog Section Wrey	0	0	1,055	245	**1,300**		1,300	**0**
EDC adaptions	0	0	30	0	**30**		30	**0**
PST training - Occ Health	0	0	30	0	**30**		30	**0**
Total Estates Schemes	**300**	**170**	**1,045**	**219**	**1,734**	**(70)**	**1,396**	**(338)**
Other Schemes								
CCTV	150	24	0	0	**174**	0	0	**(174)**
X2 Taser migration (I)	0	234	0	0	**234**	0	68	**(166)**
Glock Pistol Replacement	0	45	0	0	**45**	0	45	**0**
Laser Scanning - Accident investigation	0	5	0	0	**5**	1	5	**0**
Operation Uplift	300	0	0	(119)	**181**	126	181	**0**
Operation Lecturn	0	0	0	0	**0**	4	0	**0**
Total Other Schemes	**450**	**308**	**0**	**(119)**	**639**	**131**	**299**	**(340)**
Total Capital Expenditure 2021/22	**5,211**	**2,074**	**1,100**	**(202)**	**8,183**	**2,417**	**6,758**	**(1,425)**

Financing 2021/22

Revenue Contributions £4,722k
General Grants £1,930k
Capital Receipts £85k
Reserves £20k
Total £6,858k

Borrowing

There has been no new borrowing undertaken in the period Apr-Dec 2021 either internally or externally and none planned for 2021/22. The capital financing requirement is currently £21.6m, (£4.4m is PFI related)

Slippage capital schemes by their very nature can span one or more financial years. Slippage to future years represents schemes that are still proceeding as planned and within overall budget limits but where there is a change in the profile of spend between years.

Slippage	Previously Reported	New Slippage Qtr 3	Total £'000s	% of Base Budget
ICT Schemes	(95)	(553)	(648)	-22%
Estates Schemes	(306)	(30)	(336)	-72%
Fleet Schemes	(85)	0	(85)	-3%
Other Schemes	0	(340)	(340)	-45%
	(486)	(924)	(1,410)	-19%

Capital Expenditure

ICT

The converged Infrastructure project that began during 21/22 has now provided a list of the immediate hardware and software replacements required to ensure the continued stability of the network. In the capital strategy presented in Feb-21 the 10 year budget for this scheme was smoothed but in order to facilitate this immediate purchase some budget will need to be brought forward once the payment profile has been received. This purchase is likely to fall across 21/22 and 22/23. The Digital Policing project has concluded and a total of £13k underspent budget has been returned.

Estates & Fleet

A number of new estate demands have emerged and additional scheme have been added to the programme. These have included short term requirements to replace kennelling for police dogs £1.5m, adapting the HQ site primarily to provide increased learning and development capacity in the context of increased recruitment from Operation Uplift £0.4m. The scheme to replace the Gas suppression cylinders that protect ICT equipment in the event of a fire has concluded at £2k underspend.
The vehicle replacement programme remains on track and most vehicles are ordered and delivery expected within the financial year.

Other

The taser budget had incorrectly all been put into 2021/22 this has been corrected to reflect the payment plan across the next 3 years. The county wide CCTV project is approaching the end of the original contract and the project team is looking at the way forward. The budget was originally set across 2 financial years but the £174k in 2021/22 has now been moved to 2022/23.

The Police and Crime Commissioner for Cumbria

Treasury Management Activities 2021/22 - 01 October 2021 to 31 December 2021

Public Accountability Conference 16 February 2022 and Joint Audit Committee 16 March 2022

Cash flow Balances

Qtr average daily balance - £22.459m

Investment balance @ 31/12/21 £16.242m

(down from £21.412m at 30/09/21)

Investment Interest Forecast

Base Budget - £10,000

Revised Budget - £10,000

Current Estimate - £2,000

Borrowing Strategy

No borrowing was undertaken between 01 October 2021 to the 31 December 2021 and none is expected during 2021/22.

Investment Strategy

Category	Category Limit (£m)	Investments at 31 Dec (£m)	Compliance with Limit
1 - Banks Unsecured	20	2.523	Yes
2 - Banks Secured	20	0.000	Yes
3 - Government (inc LA)	10	4.000	Yes
4 - Registered Providers	10	0.000	Yes
5 - Pooled Funds	15	9.718	Yes
Total		**16.242**	

There have been no breaches in the approved limits to report during the reporting period.

Performance Indicators

Quarter 3	Number of Days	Average Balance £	Largest Balance £
Days In Credit	92	39,629	325,848
Days Overdrawn	0	0	0

Average interest rate earned - 0.011%

Average base rate - 0.13%

Current bank base rate - 0.25%

Previous bank base rate – 0.10%
(Increase of 0.15% o 16 December 21)

Treasury and Prudential Indicators

During the period 01 October 2021 to 31 December 2021, the treasury function has operated within the treasury and prudential indicators set out in the Treasury Management Strategy Statement and in compliance with the Treasury Management Practices.

Compliance with the prudential and treasury indicators are shown on page 3.

Economic Outlook and Treasury position for the quarter ended 31 December 2021

Economic outlook and Interest Rate Forecasts

The GDP in October rose by a disappointing 0.1% month on month which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November.

The CPI inflation figure for November spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply - gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies.

The labour market statistics for the three months to October and the single month of October were released. The fallout after the furlough scheme ended on 30th September, (about one million people were still on furlough), was smaller and shorter than the Bank of England had feared - unemployment did not increase hugely in October. Indeed, vacancies rose to a record 1.219m in the three months to November showing there were acute shortages of labour.

These indicators were enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting – a vote of 8-1 saw it rise by 0.15% from 0.10% to 0.25%. The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron. There were no January lockdowns so with inflation expected to peak between 5 and 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.

Base Rate Estimates	2021/22	2022/23	2023/24	2024/25	2025/26
Quarter 1	0.10%	0.25%	0.75%	1.00%	1.25%
Quarter 2	0.10%	0.50%	0.75%	1.00%	1.25%
Quarter 3	0.10%	0.50%	0.75%	1.00%	1.25%
Quarter 4	0.25%	0.50%	0.75%	1.00%	1.25%

Strategy Limits

There have been no breaches in the strategy limits during the reporting period.

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 Acc)	AA	Various	On Demand	N/A	0.00%	499,414	499,414
Nationwide	A	05/11/2021	04/02/2021	O/N	0.05%	2,000,000	2,000,000
NatWest (Liquidity Select Acc)	A+	31/12/2021	04/01/2022	O/N	0.01%	24,000	24,000
						2,523,414	**2,523,414**
Category 2 - Banks Secured (Includes Banks & Building Societies)							
						0	**0**
Category 3 - Government (Includes HM Treasury and Other Local Authorities)							
Debt Management Office	Gov	05/11/2021	31/01/2022	31	0.010%	2,000,000	2,000,000
Debt Management Office	Gov	07/12/2021	22/02/2022	53	######	2,000,000	2,000,000
							0
						4,000,000	**4,000,000**
Category 4 -Registered Providers (Includes Providers of Social Housing)							
None						0	0
						0	**0**
Category 5 -Pooled Funds (Includes AAA rated Money Market Funds)							
Invesco	AAA	Various	On demand	O/N	0.010%	2,670,000	2,670,000
BlackRock	AAA	Various	On demand	O/N	0.005%	1,850,000	1,850,000
Fidelity	AAA	Various	On demand	O/N	0.010%	2,998,314	2,998,314
Goldman Sachs	AAA	Various	On demand	O/N	0.000%	0	0
Aberdeen Standard	AAA	Various	On demand	O/N	0.010%	2,200,000	2,200,000
						9,718,314	**9,718,314**
Total						**16,241,728**	**16,241,728**

In July 2021 the police pension grant was received from the Home Office. Along with the July grant payment, the investments reached their highest balance of £34.171m. A large proportion of the pension grant was invested with the Debt Management Office (DMO) of HM Treasury to be returned at regular intervals as cashflow forecasts require, with the remainder being managed through the money market funds.

At the beginning of the pandemic the decision was made to temporarily exclude investments with Banks, Building Societies, and other Local Authorities. The anticipated risks to financial institutions potentially arising from the pandemic have not arisen, therefore short, fixed term deposits will be introduced with banks and building societies when funds allow.

Treasury and Prudential Indicators 2021/22 at 31 December 2021

Treasury Management Indicators

		Result	RAG
The Authorised Limit *The authorised limit represents an upper limit of external borrowing that could be afforded in the short term but may not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is a statutory limit under section3(1) of the local government Act 2003.*	TEST - Is current external borrowing within the approved limit	YES	
The Operational Boundary *The operational boundary represents and estimate of the most likely but not worse case scenario it is only a guide and may be breached temporarily due to variations in cash flow.*	TEST - Is current external borrowing within the approved limit	YES	
Actual External Debt *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.*	TEST - Is the external debt within the Authorised limit and operational boundry	YES	
Gross and Net Debt *The purpose of this indicator is to highlight a situation where the Commissioner is planning to borrow in advance of need.*	TEST - Is the PCC planning to borrow in advance of need	NO	
Maturity Structure of Borrowing *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.*	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 365 Days *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.*	TEST - Is the value of long term investments witin the approved limit	YES	

Prudential indicators

		Result	RAG
Ratio of Financing Costs to Net Revenue Stream *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*	TEST - Is the ratio of captial expenditure funded by revenue within planned limits	YES	
Net Borrowing and the Capital Financing Requirement *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.*	TEST - Is net debt less than the capital financing requirement	YES	
Capital Expenditure and Capital financing *The original and current forecasts of capital expenditure and the amount of capital expenditure to be funded by prudential borrowing for 2021/22*	TEST - Is the current capital outurn within planned limits	YES	
Capital Financing Requirement *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.*	TEST - Is the capital financing requirment within planned limits	YES	

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that regular reports are presented with regards to treasury management activities. This half yearly report ensures the Police and Crime Commissioner is implementing best practice in accordance with the Code.

Peter McCall

Office of the Police and Crime Commissioner Report

REQUEST FOR POLICE & CRIME COMMISSIONER DECISION - (N° 003/ 2022)

TITLE: Approval of the Capital Strategy, Capital Programme and Treasury Management Strategy 2022/23

Executive Summary:

The purpose of this report is to provide information on the proposed capital strategy for 2022/23. The capital strategy (item 08a) is an overarching strategy that sits above the two documents which have been produced historically namely the capital programme (item 08b) and the treasury management strategy statement (item 08c). 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**”. In the past, 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. The proposed programme meets this test. However, the MTFF timeframe has now been increased to cover a 5 year period in line with best practice. A concern is raised that there is a capital funding deficit of £2.94m in 2026/27 as a result of the implementation of the Emergency Services Network.

The capital funding deficit increases to £7.62m over years 5 to 10. The estimates for 5-10 years are however built on a number of assumptions, which, particularly in rapidly changing sectors such as ICT, are difficult to accurately predict. This means that projected costs in the later years of the capital programme become increasingly indicative and should be treated with caution. Nevertheless, the funding gap identified beyond year 4 of the capital programme presents a risk that it will no longer meet the tests of 'affordability, prudence and sustainability' as set out in the Prudential Code. The only ways in which this can be realistically addressed is through either capital savings or further increased support from the revenue budget, which will, in turn, increase the requirement to deliver revenue savings.

Recommendations:

1.1. **Capital Strategy (Item 08a)** – The Commissioner is asked to approve the capital strategy including the prudential indicators set out in the report.

1.2. **Capital Programme (Item 08b)** - The Commissioner is asked to:

- Approve the capital programme for 2022/23 and beyond as part of the overall budget process for 2022/23.
- Approve the status of capital projects as detailed in appendices 2 to 5.

1.3. **Treasury Management Strategy (Item 08c)** - The Commissioner is asked to:

- Approve the Borrowing Strategy for 2022/23 as set out on pages 8-9
- Approve the Investment Strategy for 2022/23 as set out on pages 10-13
- Approve the Treasury Management Prudential Indicators as set out on pages 15-16
- Approve the other Prudential Indicators set out on pages 17 to 21
- Approve the Minimum Revenue Provision Policy Statement for 2022/23 as set out on page 22
- 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:**

Agenda Item 08a

Capital Strategy 2022/23

Office of the Police and Crime Commissioner Report

Public Accountability Conference 16 February 2022

Title: Capital Strategy 2022/23

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 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 08b & 08c).

1.3. These reports meet the reporting requirements of the Charted Institute of Public Finance and Accounting (CIPFA) Prudential Code for capital finance in Local Authorities 2017 updated guidance.

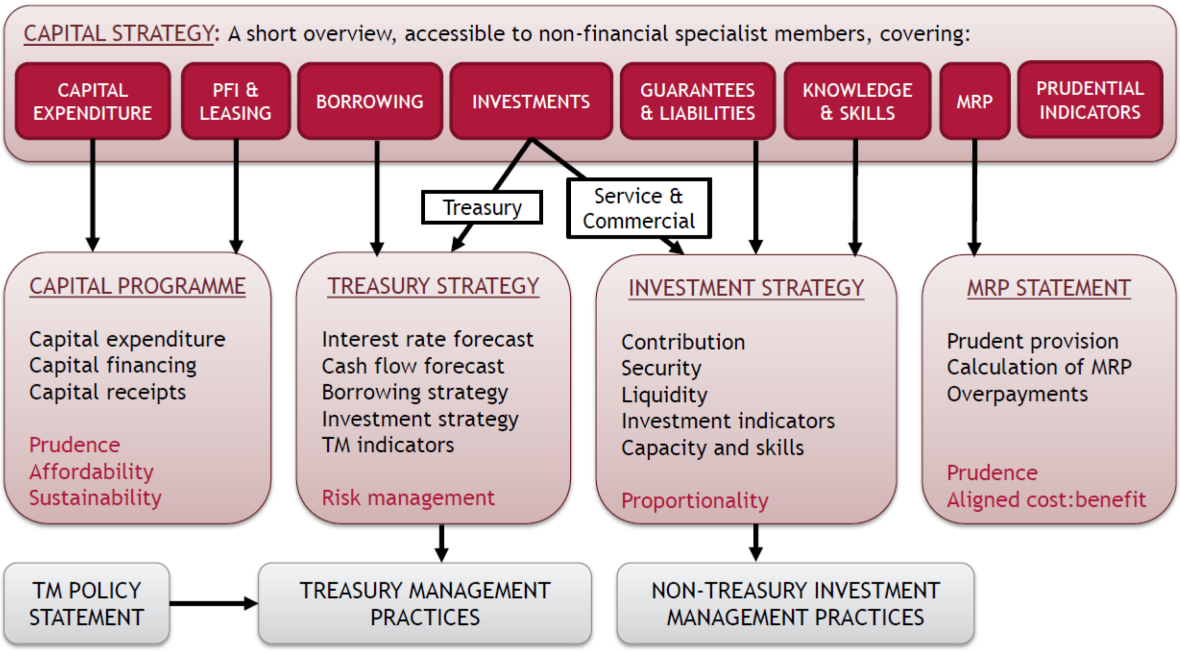
2. Recommendations

2.1. The Commissioner is asked to approve the contents of the report.

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 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. New codes were issued in December 2021 but the accompanying guidance notes have not yet been released. The most urgent changes around commercialisation strategies are not relevant to the Police and Crime Commissioner and all other changes must be adopted for the 01 April 2023.

3.2. This capital strategy report summarises the purpose and governance over a range of activities associated with capital investment and financing, which are reported on in detail elsewhere on this agenda item. The diagram below provides an overview of the scope of these activities, their inter-dependencies and reporting structures:



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

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).

4.2. Capital expenditure plans are under-pinned by asset strategies, which are developed by respective service leads linked to delivery of the Commissioner's Police and Crime Plan and the Constabulary's overall Vision 2025. The principal asset strategies and their objectives are:

- The Digital, Data and Technology Strategy, which has six key themes
  - On-going provision of trusted and reliable ICT services. Business as Usual
  - A cost effective and affordable ICT service
  - Actively supporting the delivery of Cumbria Vision 25
  - To implement national ICT systems
  - To meet local demand to renew and replace Core Systems and Applications
  - Collaboration
- The Estates Strategy, which aims to maintain an Estate which is fit for purpose whilst reducing overhead expenditure and maximising and exploiting existing assets.
- The Fleet Strategy, which aims to satisfy the Constabulary's vehicle needs within a sustainable financial model.

4.3. A workplan is developed annually to support delivery of each strategy. The updated financial implications are distilled early in the financial planning process and subsequently consolidated to produce a ten year capital programme. The overall capital programme is then subject to a process of financial scrutiny in the context of both available capital funding resources and the overall revenue budget position. The final capital programme and associated asset strategies are subject to approval by both the Constabulary Chief Officer Group and the Commissioner at his Public Accountability Conference.

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

Capital Expenditure	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2025/26 Estimate £m
Capital Expenditure	2.81	6.76	7.22	12.28	12.23	3.71	9.69

4.5. The profile of capital expenditure fluctuates annually. Across the current five year programme, annual average expenditure typically comprises £1.4m to replace fleet vehicles, £2.9m on estate schemes (although by their nature these investments tend to be more lumpy) and around £4.4m for replacement of ICT systems and equipment.

4.6. The 2022/23 capital programme includes ICT expenditure on development and roll out of mobile technology and smartphones, consideration of options for ICT infrastructure and a move to more cloud based systems. In addition, preparatory work on the national programme to replace the Police Radio System (Airwave) with an Emergency Services Network (ESN) will continue, in advance of significant expenditure to implement the system in future years. Investment in the on-going replacement of vehicles in accordance with the Fleet Strategy will continue. Expenditure on Estates schemes over the 5 years is dominated by the need to evaluate options and provide a territorial headquarters in the west of the County upon the expiry of the existing PFI arrangement in 2026. Work will also be undertaken to assess the capital investment requirements to equip the additional officers recruited through Operation Uplift and some provision has been made for this in the programme.

4.7. 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, meaning that they can be progressed without further scrutiny. Schemes which have been approved in principle but need some detailed work may be 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 Constabulary Chief Officer Group and the Police and Crime Commissioner for final approval.

4.8. The capital programme must be financed from a combination of capital grants, capital receipts, reserves, direct support from the revenue budget and, unlike the revenue budget, borrowing is permitted. Whilst it is a statutory requirement that the Commissioner agrees a balanced revenue budget, the Prudential Code requires the capital programme to be demonstrated as ‘Affordable, Prudent and Sustainable’’, it is up to each authority how it determines these criteria. Cumbria has previously defined an ‘Affordable, Prudent and Sustainable’ programme as being fully funded (from the sources outlined above) for the medium term financial forecast (MTFF) period of 4 years. The MTFF has recently been extended to cover a 5 year time frame in accordance with best practice. The estimates for 5-10 years are built on a number of assumptions, which, particularly in rapidly changing sectors such as ICT, are difficult to accurately predict. This means that projected costs in the later years of the capital programme become increasingly indicative and should be treated with caution. Nevertheless, the funding gap identified beyond year 4 of the capital programme presents a risk that it will no longer meet the tests of ‘affordability, prudence and sustainability’ as set out in the Prudential Code. The only ways in which this can be realistically addressed is through either capital savings or further increased support from the revenue budget, which will, in turn, increase the requirement to deliver revenue savings. The revenue budget and MTFF must also fully reflect any revenue implications of the capital programme including servicing costs of borrowing.

4.9. The difficulty facing Cumbria is that capital grants have been reduced to zero, the potential to generate future capital receipts is low and capital reserves are likely to have been fully utilised in the next two years. Whilst some additional capital borrowing is planned to finance long lived estates projects, this is not a viable option for shorter life assets such as vehicles and ICT. Collectively, this means that the Capital Programme is increasingly reliant on contributions from the revenue budget to fund it. This is reflected in the revenue budget and MTFF where revenue support for capital have increased to an annual figure of £3.8m by the end of the 10 year forecast period.

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. Capital financing assumes that all capital receipts will be used to finance new assets rather than reduce existing debt.

4.11. Full details of the 10 year programme and associated financing can be found in the separate report 'Capital Programme 2022/23 to 2031/32 (item 08b 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. Treasury Management involves the management of large sums of money and is therefore inherently risky. Accordingly, treasury activities are strictly controlled and managed in accordance with CIPFA's Prudential Code. The Treasury Management Strategy is approved annually by the Commissioner at his Public Accountability Conference, with activities being reported upon a periodic basis through the same meeting. The Joint Audit Committee also provides scrutiny of treasury management activities. Responsibility for treasury activities is delegated to the Joint Chief Finance Officer, who delegates responsibility for day to day management to the Deputy Chief Finance Officer. The Treasury Management Strategy incorporates subsidiary investment and borrowing strategies, which are summarised below.

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. The risk that an investment counter-party defaults is very real as illustrated by the BCCI and, more recently, Icelandic Banks scandals, which impacted on public sector bodies. The investment strategy seeks to mitigate this risk by only investing in high quality, trusted counter-parties and spreading the investment portfolio across organisations. 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.

Whilst the Commissioner has historically held significant investments, these balances are being reduced as the Commissioner has undertaken internal borrowing to support the capital programme (see below) and reserves are drawn down to support the revenue budget.

Further details on treasury investment strategy are on pages 10 to 13 of the treasury management strategy (agenda item 08c).

5.4. **The Borrowing Strategy** – As indicated the Commissioner currently holds no external debts, other than a PFI arrangement described in section 6 of this report, with all external borrowing with the PWLB (Public Works Loans Board) having been repaid during 2012/13. However, there is an underlying need to borrow, known as the Capital Financing Requirement (CFR), arising from historical decisions to finance capital expenditure from borrowing within prudent limits. To date this has been met from internal borrowing.

5.5. 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 CFR for the 31 March 2022 is forecast to be £20.97m.

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 around 2.4+% where investments are currently making less than 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.

5.6. The main objectives when borrowing is 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 would therefore have to strike a balance between low cost short-term loans (currently available at around 0.1%) and long-term fixed rate loans where the future cost is known but higher (currently 2.4%+). Current forecasts show that a small amount of short term borrowing, probably from other local authorities, may be required at the start of 2023/24 to bridge a shortfall in cash in advance of receipt of the new financial year's revenue grants.

It is unlikely that the Commissioner will actually exercise long term external borrowing until there is a change in the present structure of investments rates compared to the costs of borrowing, as this would result in a significant net interest cost to the revenue account in the short term. Nevertheless, such financing decisions have long term consequences and should be taken in this context. Long term interest rates will therefore be carefully monitored with the aim of deciding the most advantageous time to take on long term liabilities.

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 Link Asset Services (the Commissioner's treasury advisors) 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.

Further details on the borrowing strategy are on pages 8 to 9 of the treasury management strategy (agenda item 08c).

6. Other Liabilities

6.1. In relation to other external liabilities the Commissioner's balance sheet currently shows debt of £4.403m in relation to a private finance initiative (PFI) scheme for the provision of the Territorial Police HQ in West Cumbria. This debt is scheduled to reduce gradually through annual unitary charge payments met from the revenue account, until 2026 when the primary arrangement comes to an end. At this point a decision on the provision of future policing facilities in West Cumbria will need to be made. Options are currently being evaluated.

6.2. The Commissioner's balance sheet also shows long term liabilities totalling £1.522bn 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 £1.395m 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 is no clarity of the scale of the claim and no certainty over who will bear the costs at this time.

6.3. The risk of these pension liabilities crystallising and requiring payment is monitored by the Finance Services team. Further details on liabilities and guarantees are on page 92 of the 2020/21 statement of accounts.

7. Prudential Indicators

7.1. Both capital expenditure plans and treasury management are supported by a range of Prudential Indicators, whose purpose is to act as an early warning system that these activities are falling outside prescribed limits and may no longer be affordable, prudent or sustainable. 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. Details of Prudential indicators are set out on pages 15-21 of the treasury management strategy (agenda item 08c).

8. Revenue Budget Implications

8.1. 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. In addition, a direct contribution is made from revenue budget towards funding the capital programme. In 2022/23 this direct revenue contribution will amount to £4.4m.

8.2. The Commissioner is also 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	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Minimum revenue provision for the financial year	0.61	0.63	0.65	0.68	0.71	0.93	0.59

8.3. The net annual charges to the revenue account are collectively known as financing costs; which are compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants as a key prudential indicator of the affordability, prudence and sustainability of capital expenditure plans see below.

Ratio of Financing Costs to Net Revenue Stream	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Investment income	0.02	0.01	0.01	0.01	0.01	0.01	0.01
MRP	0.61	0.63	0.65	0.68	0.71	0.93	0.59
Financing Costs	**0.59**	**0.62**	**0.64**	**0.67**	**0.70**	**0.92**	**0.58**
Net Revenue Stream	118.76	123.13	129.97	132.57	135.95	138.93	141.93
Ratio	0.50%	0.50%	0.49%	0.51%	0.52%	0.66%	0.41%

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.**

9. Knowledge and Skills

9.1. 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 one employee in the final stages of studying at Level 3/4 (AAT) and has in December/January had one employee complete qualification studies at Level 3/4 (AAT) and another at Level 7 (CIPFA).

9.2. Where employees do not have the knowledge and skills required, use is made of suitably qualified external advisers. The Commissioner currently employs Link Asset Services Limited as treasury management advisers. 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.

PCC CUMBRIA
Peter McCall

Cumbria Office of the Police and Crime Commissioner

Title: Capital Programme 2022/23 & Beyond

Public Accountability Conference: 16th February 2022

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 2022/23 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. Police and Crime commissioner is asked to note the proposed capital programme for 2022/23 and beyond as part of the overall budget process for 2022/23.

2.2. The Commissioner is asked to approve the status of capital projects 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**". In previous years the test that has been applied to meet these requirements is that 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. In compliance with CIPFA best practice guidance the medium-term financial timeframe for both revenue and capital expenditure planning has now been extended to 5 years.

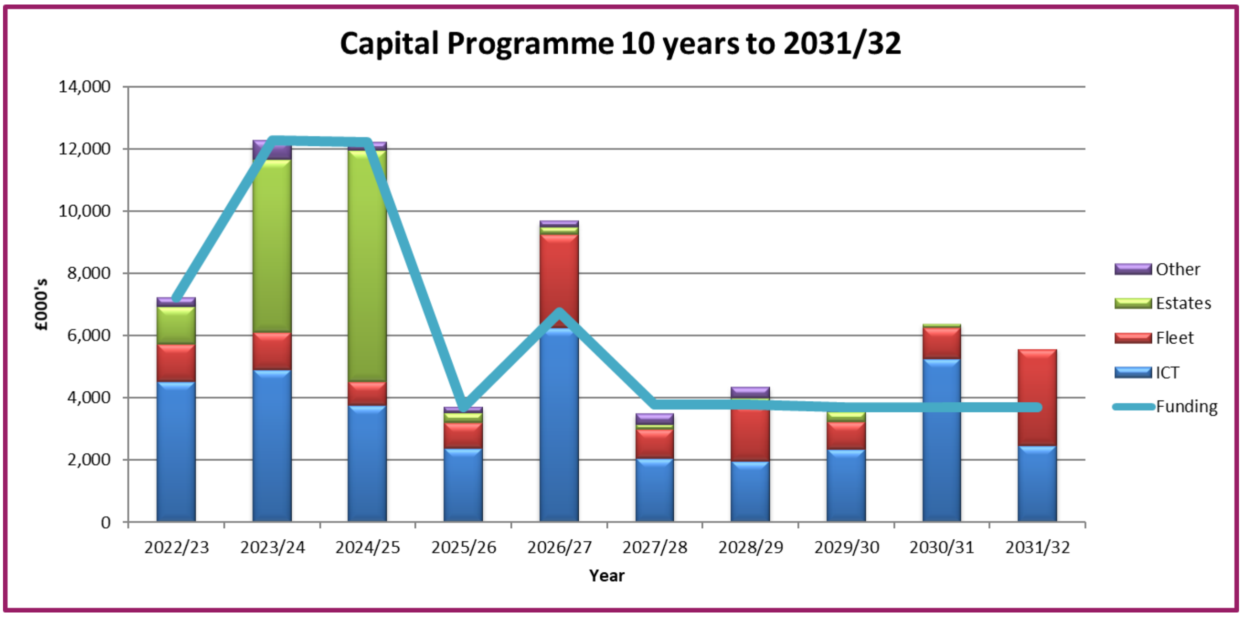
3.2. There are three main recurring elements to the Commissioner's capital programme namely: Fleet Schemes, Estates Schemes and ICT Schemes. In addition to these, there are currently a small number of "other schemes" which do not fall into the broad headings above and include the replacement of the countywide CCTV system and replacement of firearms equipment, such as tasers.

3.3. The profile of capital expenditure fluctuates annually. Across the current ten-year programme, annual average expenditure typically comprises £1.5m to replace fleet vehicles and around £3.5m for replacement of ICT systems and equipment. The profile of Estates schemes is 'lumpier', with peaks of expenditure when major buildings are replaced. ICT Expenditure reflects the Constabulary Strategy to invest in digital technology and the national programme to replace the Police Radio System (Airwave) with an Emergency Services Network (ESN).

3.4. The table below provides a high-level summary of the proposed capital programme and associated capital financing over the five-year timeframe of the medium-term financial forecast (2022/23 to 2026/27).

Capital Expenditure	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £
ICT Schemes	2,361,763	4,530,120	4,892,291	3,768,847	2,388,379	6,248,985
Fleet Schemes	2,700,594	1,191,000	1,215,840	749,216	821,500	2,995,704
Estates Schemes	1,395,726	1,206,249	5,550,000	7,440,000	300,000	245,000
Other Schemes	299,426	291,719	617,829	267,829	200,000	200,000
Total Capital Expenditure	6,757,509	7,219,088	12,275,960	12,225,892	3,709,879	9,689,689
Capital Financing	**Yr 0 2021/22 £**	**Yr 1 2022/23 £**	**Yr 2 2023/24 £**	**Yr 3 2024/25 £**	**Yr 4 2025/26 £**	**Yr 5 2026/27 £**
Capital Receipts	(84,800)	0	(1,182,217)	(380,864)	(105,997)	(3,113,091)
Revenue Contributions	(4,652,774)	(4,415,946)	(4,406,701)	(4,465,028)	(3,603,882)	(3,632,587)
Capital Grants	(1,999,935)	(2,203,142)	(1,687,042)	0	0	0
Capital Reserves	(20,000)	(600,000)	(3,380,000)	0	0	0
Borrowing	0	0	(1,620,000)	(7,380,000)	0	0
Total Capital Financing	(6,757,509)	(7,219,088)	(12,275,960)	(12,225,892)	(3,709,879)	(6,745,678)
(Excess)/Shortfall	0	0	0	0	0	2,944,011

3.5. The diagram below shows the make up of the capital programme over 10 years. The large block of Estates work in 2023/24 and 2024/25 relates to the planned replacement of the Territorial Policing HQ in West Cumbria at the end of the current PFI contract. An options evaluation with regard to this project is currently being progressed and formal approval will be required before the scheme commences.



3.6. Since the last capital strategy was agreed by the Commissioner in February 2021 a number of new capital demands have emerged. These have included short term requirements to replace kenneling for police dogs £1.5m, adapting the HQ site primarily to provide increased learning and development capacity in the context of increased recruitment from Operation Uplift £0.4m and the replacement of the Police Records Management System by 2024/25 at an estimated cost of £3m. These additional short term capital demands will be financed through a combination of draw-down of revenue reserves and direct support from the revenue budget.

3.7. Increased costs are also forecast in the later years of the ten-year capital programme. In particular, a re-assessment of the costs of implementing the Emergency Services Network (ESN) has been undertaken based on revised modelling issued by the Home Office. This work has identified an upward revision of the implementation costs of the new system by £3m, with the bulk of the additional cost arising around the point of transition in 2026/27. ESN is a complex national project, which has been subject to repeated delays and uncertainty regarding the proportion of costs which will ultimately be borne by forces.

3.8. In addition, recent increases in the costs of vehicles have also added a further £3m to the cost of fleet replacement over the ten-year forecast period. There is also a risk that additional vehicles to meet the needs of the additional officers recruited through Operation Uplift will be required, which will require a business case, but would add further to the fleet programme costs.

3.9. Historically the capital programme has been financed through a combination of capital grants, capital receipts, capital reserves, borrowing and contributions from the revenue budget. Reserves and accumulated capital grants will be largely exhausted by 2023/24. In addition, the Government's grant settlements over recent years had successively reduced the level of specific capital grant funding to £97k p.a. by 2021/22. Capital grant funding was removed altogether from the 2022/23 police settlement, although the Policing Minister has made it clear that the additional revenue funding for Operation Uplift has included a capital element to support the infrastructure costs required to equip the additional officers in their roles.

3.10. As a result of the reducing funding sources described above and 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 programme are fairly limited. Borrowing for short-lived assets is not a viable consideration due to the requirement to set aside funds from the revenue budget 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 2023/24 and 2024/25 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 see para 3.5.

3.11. The capital programme has therefore become ever more reliant on revenue contributions to finance capital expenditure. Historically, the annual contribution from the revenue budget was set at £1.2m. The following increases have been approved since then

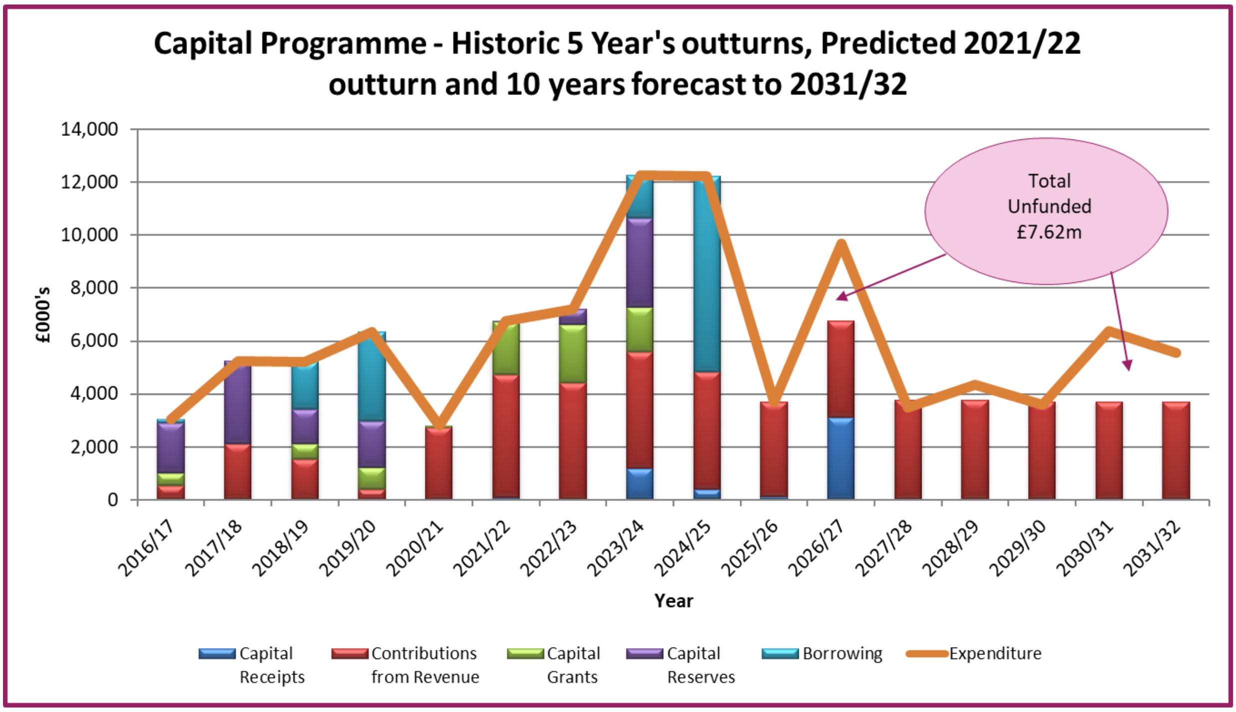
- PCP Jan 2017 - Increase of £0.48m to £1.68m for 2018/19 and 2019/20.
- PCP Jan 2017 – Increase of £1.3m to £2.98m for 2020/21 onwards.
- PCP Jan 2019 – Increase £0.3m to £3.28m from 2020/21.
- PCP Feb 2020 – Increase £0.27m to £3.56m from 2020/21.

3.12. A summary of the 10-year capital programme is provided for information at **Appendix 1**. Whereas the ten-year capital programme in previous years was fully balanced, the increased capital expenditure and reduced funding outlined in the preceding paragraphs has given rise to a total capital funding deficit of £7.62m in years 5 to 10. The estimates for 5-10 years are built on a number of assumptions, which, particularly in rapidly changing sectors such as ICT, are difficult to accurately predict. This means that projected costs in the later years of the capital programme become increasingly indicative and should be treated with caution. Nevertheless, the funding gap identified beyond year 4 of the capital programme presents a risk that it will no longer meet the tests of 'affordability, prudence and sustainability' as set out in the Prudential Code. The only ways in which this can be realistically addressed is through either capital savings or further increased support from the revenue budget, which will, in turn, increase the requirement to deliver revenue savings. The ten-year capital programme deficit of £7.62m would equate to an increase in revenue support of £0.76m pa over 10 years or £1.27m pa over the later 6 years.

3.13. Of particular concern is the projected deficit of £2.9m in 2026/27, which is largely as a result of the implementation of ESN. Given the higher than usual level of complexity and uncertainty regarding this project, further work will be undertaken within the Constabulary to validate the costs of ESN. However, there may ultimately be no option but to increase the level of support to the capital programme from the revenue budget.

3.14. Whilst the proposed capital programme meets the prudential code test of 'affordability, prudence and sustainability' that it fully funded over 4 years, it would no longer do so if the test were extended to 5 years due to the costs of implementing ESN. Further work will therefore be undertaken in 2022/23 to assure the programme's sustainability over the longer term.

The chart below illustrates capital expenditure and funding over a historic five-year period and forecast for ten-year period which illustrates how the capital programme will become almost entirely dependent upon revenue funding in future and also highlights the funding gap, where the orange expenditure line exceeds the funding in the bars.



3.15. **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 Digital Strategy.

The ICT Capital Programme also makes provision for a large number of national ICT programmes, which include changes of major strategic importance, in particular, the programme 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 £5.40m over the five years of the MTFF and £10.1m over 10 years (an increase of £3m from the programme presented in February 2021). 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. The timescales for the project are constantly changing and it is likely to be the new financial year before we get any further clarity. These prudent commitments in the strategy place the Commissioner in a good position for any announcements. The replacement Airwave handsets will use different technology to the old radios and the Constabulary's control room infrastructure has been upgraded so it is ready to support the connection to ESN.

The pandemic has provided the Constabulary with an opportunity to assess the current agile working and look at how this will affect future working arrangements. This will help determine the ICT infrastructure that is needed to support a more agile future. The Infrastructure is currently a consolidation of server hardware in an on-site data centre. The desire is to move away from this expensive hardware and towards cloud storage. The project budget to deliver these changes has begun with a budget that is spread all 10 years (slightly front loaded) to reflect more accurately the financing of a managed solution. Such a solution could ultimately be classed as revenue expenditure but until such time that a 'Proof of Concept' provides us with a firm pathway to Cloud, the budget is provisioned for in capital.

The ICT programme 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. Current exploratory work is underway to understand the best way forward to allow us to keep ahead of the evolving complexities of policing technologies and join all our information in one place. To facilitate these developments a record management system has been added to the programme with a value of £3m.

If these three large schemes are discounted, the programme shows that the ICT capital programme presented remains broadly flat over the 10 years at an average of £1.5m per annum. This provides for the cyclical replacement and improvement of the full range of ICT services: the networks and security and that ensures information can be moved securely between the different systems and device end points through which it is entered, processed and stored. Over recent years significant investment in mobile and digital ICT has been undertaken, the capital strategy presented includes 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.

3.16. **Fleet Schemes**

The constabulary fleet replacement programme consists of around 300 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 update of progress against which was presented to the Commissioner as part of the budget setting process in the autumn. 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 2021/22 100 vehicles were planned for replacement (including 62 slipped from 2020/21) at an estimated cost of £2.7m. Many of these vehicles were to replace the 'Single Vehicle platform' vehicles that were originally rolled out in 2014/15. The pandemic delayed delivery of a large number of vehicles in 2020/21, which have all now been received. The delays caused some operational difficulties associated with managing and rotating an aging fleet but these vehicles have now all been replaced. Of the 38 vehicles in the programme for 2021/22 22 have been ordered with 13 of those being received and a further 6 expected close to the year end. Of the remaining 16 vehicles yet to be ordered 11 are pool cars. A review of pool car usage and the type of replacement vehicles required will determine the timescales for replacement. The suitability of hybrid and fully electric vehicles are being considered. The effects of Brexit and the pandemic are being felt and the prices of some vehicles have risen. As a result of this the current year budget includes an increase of £66k to accommodate this price inflation.

The plan for 2022/23 is to replace 32 vehicles with a budget of £1,191k. This is made up with a mix of operational vehicles for territorial policing and several CSI vehicles. The budget has been created on pricing from current frameworks and recent purchases which reflect the recent price increases.

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

3.17. **Estates Schemes**

The Commissioner's estate currently consists of 29 premises (including police headquarters, larger police stations/Territorial Policing Area HQ, which include custody suites, smaller police stations, leased in and leased out property together with surplus assets subject to disposal). The estates schemes are supported by the estates strategy, an annual update of progress against this was presented to the Commissioner as part of the budget setting process for 2022/23. 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 main focus of the strategy in recent years (following the development of the new Learning & Development Centre and replacement hostel accommodation on the HQ site at Penrith) has been on smaller life cycle replacements at various premises, including roof repairs, heating and ventilation and improvements to the uninterrupted power supply.

As mentioned in section 3.6 there have been some new schemes added to the 2021/22 programme.

- The investment in additional Police Officers (Operation Uplift) requires some internal changes to the Learning and Development Centre to support the increased level of police officer recruitment at a value of £0.3m.
- The opportunity has arisen to replace the HQ kennels at a cost of £1.5m.
- Internal building work in the Occupational Health Building to create a purpose-built Taser training facility at a value of £50k.

The emphasis shifts for the coming years to focus on improved premises in the west of the county in response to major flooding incidents in recent years, options for which will continue to be developed over 2022/23. The west scheme accounts for the majority of the estates capital spend £13m out the £14.6m planned over the medium term, with some smaller items of life cycle replacement making up the difference. Beyond this, in the 10 year plan, the estates capital budget reduces significantly once the west scheme is complete, to leave on average £221k per year for replacement schemes.

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

3.18. **Other Schemes**

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

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

4. Capital Receipts

4.1. **Appendix 7** provides details of property disposals and the proceeds of those sales over recent years. The table shows total property receipts of £5.021m. At 31 March 2021 there was a balance of property receipts unapplied of £2.096m plus the 2021/22 receipt of £0.253m, this means that £2.672m have already been applied to the capital programme. The majority of the sales resulted from an estates rationalisation programme and those sale proceeds were used to finance the South Area Headquarters in Barrow. In addition to the property receipts there are £85k of receipts from the sale of obsolete radio equipment, realised during the recent replacement of the airwave handsets. These will be drawn down to help finance the ESN radio replacement project.

4.2. The remainder of the capital receipts will be applied to the capital programme from 2023/24 as reserves and grants will all have been used to fund expenditure.

5. Supplementary information

<u>Attachments</u>

Appendix 1	Capital Expenditure and Financing 10 years 2022/23 to 2031/32
Appendix 2	ICT Schemes
Appendix 3	Fleet Schemes
Appendix 4	Estates Schemes
Appendix 5	Other Schemes
Appendix 6	Analysis of the change in Capital Strategy between February 2021 and January 2022
Appendix 7	Capital Receipts Breakdown 2009/10 to 2021/22

Appendix 1

Capital Expenditure and Financing 10 years 2022/23 to 2031/32

Capital Expenditure	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £	Yr 6 2027/28 £	Yr 7 2028/29 £	Yr 8 2029/30 £	Yr 9 2030/31 £	Yr 10 2031/32	Yr 1-10 Total £
ICT Schemes	**2,361,763**	**4,530,120**	**4,892,291**	**3,768,847**	**2,388,379**	6,248,985	2,066,298	1,955,588	2,341,451	5,257,998	2,466,162	35,916,119
Fleet Schemes	**2,700,594**	**1,191,000**	**1,215,840**	**749,216**	**821,500**	2,995,704	915,750	1,859,816	886,350	1,003,400	3,084,520	14,723,096
Estates Schemes	**1,395,726**	**1,206,249**	**5,550,000**	**7,440,000**	**300,000**	245,000	170,000	185,000	320,000	105,000	0	15,521,249
Other Schemes	**299,426**	**291,719**	**617,829**	**267,829**	**200,000**	200,000	350,000	350,000	43,000	0	0	2,320,378
Total Capital Expenditure	**6,757,509**	**7,219,088**	**12,275,960**	**12,225,892**	**3,709,879**	**9,689,689**	**3,502,048.30**	**4,350,403.56**	**3,590,800.90**	**6,366,398.06**	**5,550,682.39**	**68,480,841.77**
Capital Financing	**Yr 0 2021/22 £**	**Yr 1 2022/23 £**	**Yr 2 2023/24 £**	**Yr 3 2024/25 £**	**Yr 4 2025/26 £**	**Yr 5 2026/27 £**	**Yr 6 2027/28 £**	**Yr 7 2028/29 £**	**Yr 8 2029/30 £**	**Yr 9 2030/31 £**	**Yr 10 2031/32**	**Yr 1-10 Total £**
Capital Receipts	**(84,800)**	**0**	**(1,182,217)**	**(380,864)**	**(105,997)**	(3,113,091)	0	0	0	0	0	(4,782,169)
Revenue Contributions	**(4,652,774)**	**(4,415,946)**	**(4,406,701)**	**(4,465,028)**	**(3,603,882)**	(3,632,587)	(3,775,353)	(3,779,209)	(3,711,926)	(3,710,693)	(3,709,429)	(39,210,755)
Capital Grants	**(1,999,935)**	**(2,203,142)**	**(1,687,042)**	**0**	**0**	0	0	0	0	0	0	(3,890,184)
Capital Reserves	**(20,000)**	**(600,000)**	**(3,380,000)**	**0**	**0**	0	0	0	0	0	0	(3,980,000)
Borrowing	**0**	**0**	**(1,620,000)**	**(7,380,000)**	**0**	0	0	0	0	0	0	(9,000,000)
Total Capital Financing	**(6,757,509)**	**(7,219,088)**	**(12,275,960)**	**(12,225,892)**	**(3,709,879)**	**(6,745,678)**	**(3,775,353)**	**(3,779,209)**	**(3,711,926)**	**(3,710,693)**	**(3,709,429)**	**(60,863,108)**
(Excess)/Shortfall	**0**	**0**	**0**	**0**	**0**	**2,944,011**	**(273,305)**	**571,194**	**(121,125)**	**2,655,705**	**1,841,253**	**7,617,734**

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

ICT Schemes

ICT Summary	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £	Yr 6 2027/28 £	Yr 7 2028/29 £	Yr 8 2029/30 £	Yr 9 2030/31 £	Yr 10 2031/32 £	Yr 1-10 Total £
ICT End User Hardware Replacement (002x)	447,864	1,287,545	698,084	1,163,579	643,628	446,621	698,538	661,125	881,714	450,871	406,609	7,338,314
ICT Core Hardware Replacement (003/004x)	957,534	2,015,546	998,150	764,110	1,043,719	1,234,347	1,490,748	1,547,009	991,478	1,272,254	1,625,325	12,982,687
ICT ESN Radio Replacement (Airwave)	264,275	382,420	69,200	200,000	588,000	4,452,778	0	0	189,540	3,740,750	742,500	10,365,188
ICT Core Infrastructure Replacement	0	96,094	285,000	0	0	0	0	0	0	0	0	381,094
ICT Infrastructure Solution Replacement (Projects)	692,090	1,748,514	1,841,857	1,641,158	113,033	115,239	222,488	277,081	765,620	124,503	126,934	6,976,426
Savings Target - 15% Year 5-10 (linked to ICT tech advances)	0	0	0	0	0	0	(345,476)	(529,628)	(486,901)	(330,381)	(435,205)	(2,127,591)
General Prudent Slippage (linked to workloads and staffing levels)	0	(1,000,000)	1,000,000	0	0	0	0	0	0	0	0	0
Total ICT Summary	***2,361,763***	***4,530,120***	***4,892,291***	***3,768,847***	***2,388,379***	***6,248,985***	***2,066,298***	***1,955,588***	***2,341,451***	***5,257,998***	***2,466,162***	***35,916,119***

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 2022/23 to 2025/26, covering the period for which the capital programme is fully funded.

Fleet Schemes

Fleet Summary	Status	*Number of Vehicles in Category*	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £	Yr 6 2027/28 £	Yr 7 2028/29 £	Yr 8 2029/30 £	Yr 9 2030/31 £	Yr 10 2031/32 £	Yr 1-10 Total £
Covert	Firm	**14**	139,062	26,000	92,820	114,400	29,680	91,908	50,600	101,920	125,400	32,480	100,418	765,626
Neighbourhood Policing	Firm	**91**	1,382,377	485,000	403,920	0	63,600	1,722,708	533,500	443,520	0	0	1,922,338	5,574,586
Specialist Vehicles	Firm	**28**	288,524	30,000	113,220	74,880	233,200	119,448	113,300	450,856	126,540	40,600	241,428	1,543,472
Dog Vehicles	Firm	**10**	297,759	0	0	0	74,200	297,864	0	0	0	81,200	366,744	820,008
Motor Cycles	Firm	**8**	0	0	0	0	149,460	0	0	0	0	17,400	0	166,860
Pool Cars	Firm	**29**	174,200	15,000	63,240	37,856	19,080	122,796	14,300	220,640	17,100	71,920	42,952	624,884
Protected personnel Carriers	Firm	**9**	0	240,000	0	0	0	129,600	0	201,600	0	278,400	0	849,600
Roads Policing Vehicles	Firm	**20**	239,391	40,000	306,000	312,000	195,040	367,200	110,000	224,000	551,760	162,400	0	2,268,400
Crime Command	Firm	**39**	30,000	0	198,900	112,320	57,240	112,320	33,000	0	0	278,400	92,040	884,220
Crime Scene Investigators	Firm	**10**	20,500	270,000	0	0	0	0	0	0	23,370	0	318,600	611,970
Garage	Firm	**6**	0	0	0	0	0	0	0	151,200	0	0	0	151,200
VIP	Firm	**2**	0	0	37,740	36,400	0	0	0	0	42,180	40,600	0	156,920
Above Strength Vehicles	Firm	**29**	0	0	0	0	0	0	0	0	0	0	0	0
Adaptations	Firm	**0**	128,781	0	0	0	0	0	0	0	0	0	0	0
Partnership Vehicles	Firm	**14**	0	85,000	0	61,360	0	31,860	61,050	66,080	0	0	0	305,350
Total Fleet Summary		***309***	***2,700,594***	***1,191,000***	***1,215,840***	***749,216***	***821,500***	***2,995,704***	***915,750***	***1,859,816***	***886,350***	***1,003,400***	***3,084,520***	***14,723,096***
Number of Vehicles Replaced Each Year			***109***	***32***	***45***	***29***	***30***	***99***	***29***	***54***	***21***	***39***	***97***	

Status - Fleet Replacement - It is recommended that all fleet replacement schemes are approved as firm for 2022/23 only. This provides authority to procure on the basis of the currently approved fleet strategy. The strategy will be reviewed during 2022/23 to inform the status of the capital programme in future years.

Appendix 4

Estates Schemes

Estates Summary	Status	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £	Yr 6 2027/28 £	Yr 7 2028/29 £	Yr 8 2029/30 £	Yr 9 2030/31 £	Yr 10 2031/32 £	Yr 1-10 Total £
Existing Schemes													
Roof Repairs - Kendal Police Station	Firm	0	56,249	0	0	0	120,000	0	0	25,000	0	0	201,249
Roof Repairs & Glazing - Durranhill		0	0	0	0	0	75,000	0	0	0	0	0	75,000
Police Headquarters HVAC		0	0	0	0	300,000	0	0	0	200,000	0	0	500,000
Barrow HVAC		0	0	0	0	0	0	60,000	0	0	0	0	60,000
Comms Centre Cooling plant		0	0	0	0	0	0	0	0	70,000	0	0	70,000
UPS Durranhill	Firm	0	0	0	60,000	0	0	0	0	0	0	0	60,000
UPS HQ	Firm	17,923	0	0	0	0	0	0	30,000	0	0	0	30,000
UPS Kendal		0	0	0	0	0	0	0	30,000	0	0	0	30,000
UPS Barrow		0	0	0	0	0	0	60,000	0	0	0	0	60,000
Garage Provision	Indicative	0	0	500,000	0	0	0	0	0	0	0	0	500,000
Durranhill CCTV system and cell call	Indicative	0	0	50,000	0	0	0	0	0	0	0	0	50,000
Kendal CCTV and Cell Call		0	0	0	0	0	0	50,000	0	0	0	0	50,000
Barrow CCTV camera replacement		0	0	0	0	0	0	0	35,000	0	0	0	35,000
West Estate	Indicative	20,000	600,000	5,000,000	7,380,000	0	0	0	0	0	0	0	12,980,000
HQ Static invertor		0	0	0	0	0	0	0	50,000	0	0	0	50,000
HQ window conservation		0	0	0	0	0	50,000	0	0	0	0	0	50,000
Learning and Development Centre life cycles		0	0	0	0	0	0	0	0	0	25,000	0	25,000
Gas suppression cylinder replacements	Firm	(2,197)	0	0	0	0	0	0	0	25,000	0	0	25,000
Kendal M&E plant		0	0	0	0	0	0	0	20,000	0	0	0	20,000
Kendal - yr 10 electrical and plant		0	0	0	0	0	0	0	0	0	50,000	0	50,000
Carlisle M&E plant (area 2)	Firm	0	60,000	0	0	0	0	0	20,000	0	0	0	80,000
Durranhill curtain walling life cycles		0	0	0	0	0	0	0	0	0	30,000	0	30,000
Sub Total Existing Estates Schemes		***35,726***	***716,249***	***5,550,000***	***7,440,000***	***300,000***	***245,000***	***170,000***	***185,000***	***320,000***	***105,000***	***0***	***15,031,249***
New Estates Schemes 2022/23													
Learning and Development - ground floor	Firm	30,000	290,000	0	0	0	0	0		0	0	0	290,000
PST - Occ Health	Firm	30,000	0	0	0	0	0	0	0	0	0	0	0
Dog Section	Firm	1,300,000	200,000	0	0	0	0	0	0	0	0	0	200,000
Sub Total New Estates Schemes		**1,360,000**	***490,000***	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	***490,000***
Total Estates Schemes		***1,395,726***	***1,206,249***	***5,550,000***	***7,440,000***	***300,000***	***245,000***	***170,000***	***185,000***	***320,000***	***105,000***	***0***	***15,521,249***

Estates Scheme Status Recommendations*

It is recommended that schemes to provide premises in the West of the county, the garage provision and the custody CCTV 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 2021/22 and 2024/25 only unless otherwise stated.

Appendix 5

Other Schemes

Other Schemes		Status	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £	Yr 6 2027/28 £	Yr 7 2028/29 £	Yr 8 2029/30 £	Yr 9 2030/31 £	Yr 10 2031/32 £	Yr 1-10 Total £
CCTV	1	Indicative	0	173,890	350,000	0	0	0	150,000	350,000	0	0	0	1,023,890
Taser CED migration (T60 package /T7 * 79)		Firm	67,829	67,829	67,829	67,829	0	0	0	0	0	0	0	203,488
X26 taser fleet replacement	2	Indicative	0	0	200,000	200,000	200,000	200,000	200,000	0	0	0	0	1,000,000
Glock Pistol Replacement		Firm	45,167	0	0	0	0	0	0	0	0	0	0	0
Portable Ballistic Protective Equipment			0	0	0	0	0	0	0	0	43,000	0	0	43,000
Laser Scanning		Firm	4,954	0	0	0	0	0	0	0	0	0	0	0
Barrow - custody CCTV upgrades (support digital roll out)	3	Indicative	0	50,000	0	0	0	0	0	0	0	0	0	50,000
Operation Uplift		Firm	181,475	0	0	0	0	0	0	0	0	0	0	0
Total Other Schemes			**299,426**	**291,719**	**617,829**	**267,829**	**200,000**	**200,000**	**350,000**	**350,000**	**43,000**	**0**	**0**	**2,320,378**

Other Scheme Status Recommendations*

1. It is recommended that the wholescale replacement of the CCTV system in 2022/23 and 2023/24 be subject to a business case.
2. It is recommended that the capital aspects of the taser replacement programme commencing in 2023/24 be subject to a business case.
3. It is recommended that the roll out of digital CCTV in custody be subject to a business case.

*scheme status applies to the financial profile between 2021/22 and 2024/25 only unless otherwise stated.

Appendix 6

Analysis of the change in Capital Programme between February 2021 and the January 2022 proposal.

EXPENDITURE	Yr 0 2021/22 £	Yr 1 2022/23 £	Yr 2 2023/24 £	Yr 3 2024/25 £	Yr 4 2025/26 £	Yr 5 2026/27 £	1-5 Year TOTAL £
Capital Strategy - Approved (February 2021)	5,210,913	16,366,556	9,635,969	3,195,123	3,962,068	5,219,972	38,379,688
Capital Strategy - Proposed (December 2021)	6,757,509	7,219,088	12,275,960	12,225,892	3,709,879	9,689,689	45,120,509
Difference (decrease)/Increase	1,546,597	(9,147,468)	2,639,991	9,030,769	(252,189)	4,469,717	6,740,821
Difference by Type							
- ICT Schemes	(330,776)	(2,191,156)	2,041,922	1,780,908	(514,129)	3,704,903	4,822,448
- Fleet Schemes	932,220	105,720	30,240	(147,968)	111,940	564,814	664,746
- Estates Schemes	1,145,726	(6,503,751)	(50,000)	7,130,000	(50,000)	0	526,249
- Other Schemes	(200,574)	(558,281)	617,829	267,829	200,000	200,000	727,378
Difference (decrease)/Increase	1,546,597	(9,147,468)	2,639,991	9,030,769	(252,189)	4,469,717	6,740,821
Explanation of the Difference by Type							
- ICT Schemes							
2020/21 outturn	704,973	0	0	0	0	0	0
Slippage	(1,204,774)	905,879	0	0	(220,000)	220,000	905,879
Airwave	0	100,000	69,200	0	45,000	0	214,200
ESN	0	(2,381,401)	10,199	210,672	(554,864)	3,150,950	435,556
Revenue	(1,321,925)	599,078	(307,577)	(309,997)	(296,472)	(115,003)	(429,971)
Additional funding / approvals	421,600	(316,600)	0	0	0	0	(316,600)
Smartphones	0	0	350,000	350,000	0	0	700,000
RMS	0	1,000,000	1,000,000	1,000,000	0	0	3,000,000
CRF slippage and reprofile	(552,220)	101,887	(79,900)	530,233	0	0	552,220
Converged	784,000	(200,000)	0	0	0	0	(200,000)
Prudent Slippage & Savings	1,000,000	(2,000,000)	1,000,000	0	512,207	448,956	(38,837)
Budget Returned	(162,429)	0	0	0	0	0	0
- Fleet Schemes							
Qtr 4 Slippage	811,049	0	0	(110,000)	110,000	(7,400)	(7,400)
Slippage to 22/23	(85,000)	85,000	0	0	0	0	85,000
Expert Life Change	(15,330)	0	0	0	0	459,000	459,000
life doubled / replacement removed	0	0	0	(40,000)	0	0	(40,000)
Price Increases	181,501	42,000	52,000	24,000	8,000	112,300	238,300
TSU Conversion	40,000	0	0	0	0	0	0
Inflation	0	(21,280)	(21,760)	(21,968)	(6,060)	914	(70,154)
- Estates Schemes							
Roof Repairs - Kendal	0	56,249	0	0	0	0	56,249
Roof Repairs - Kennels	0	0	0	(250,000)	0	0	(250,000)
Gas suppression cylinder replacements	(2,197)	0	0	0	0	0	0
UPS HQ	17,923	0	0	0	0	0	0
Garage Provision	0	(500,000)	500,000	0	0	0	0
Durranhill CCTV system and cell call	0	0	50,000	0	(50,000)	0	0
West Resilience Flood Management	(230,000)	(6,550,000)	(600,000)	7,380,000	0	0	230,000
New Schemes	1,360,000	490,000	0	0	0	0	490,000
- Other Schemes							
CCTV	(150,000)	(176,110)	350,000	0	0	0	173,890
Curretn Taser Fleet Replacement	67,829	67,829	67,829	67,829	0	0	203,488
Future X26 taser fleet replacement	0	0	200,000	200,000	200,000	200,000	800,000
Glock Pistol Replacement	45,167	0	0	0	0	0	0
Laser Scanning	4,954	0	0	0	0	0	0
Barrow - custody CCTV	(50,000)	50,000	0	0	0	0	50,000
Operation Uplift	(118,525)	(500,000)	0	0	0	0	(500,000)
Difference (decrease)/Increase	1,546,597	(9,147,468)	2,639,991	9,030,769	(252,189)	4,469,717	6,740,821
Difference left to explain	0	0	0	0	0	0	0

Appendix 7

Property Disposals – Details of Sale Proceeds

Year	Premises Sold	Sale Proceeds £	Costs of Disposal £	Net Capital Receipts £
2021/22	Police House - 16 Hillswood Avenue	258,750	5,934	252,816
2020/21	There were no property sales	0	0	0
2019/20	There were no property sales	0	0	0
2018/19	Police House -39 Liddle Close Carlisle	159,000	2,546	156,454
2018/19	Ulverston Police Station	500,000	9,037	490,963
2017/18	Cleator Moor Police Station	105,000	1,939	103,061
2017/18	Barrow Police Statation	450,000	10,361	439,639
2016/17	Police House - 21 Thornleigh Road	266,200	5,570	260,630
2016/17	Maryport Police Station	80,500	1,995	78,505
2015/16	Police House 11-12 The Green, Penrith	60,000	2,006	57,994
2015/16	Wigton Police Station	187,500	4,545	182,955
2015/16	Ambleside Police Station	321,500	6,131	315,369
2013/14	Dalton in Furness Police Station	121,000	2,756	118,244
2013/14	Keswick Police Station	327,000	0	327,000
2012/13	Kirkby Stephen Police Station & House	150,000	857	149,143
2012/13	Police House - 3 Centurians Walk, Carlisle	175,500	2,827	172,673
2012/13	Police House - 4 Allan Court, Workington	173,500	2,100	171,400
2012/13	Alston Police Station	166,000	1,123	164,877
2012/13	Ambleside Police Station	141,000	1,753	139,247
2012/13	Cockermouth Police Station	241,000	2,613	238,387
2012/13	Millom Police Station	45,600	1,644	43,956
2012/13	Milnthorpe Police Station	140,500	1,260	139,240
2012/13	Sedbergh Police Station	90,000	1,328	88,672
2011/12	Police House - Durdar	150,000	2,070	147,930
2011/12	Police House - 12 Derwent Drive Kendal	183,500	1,943	181,557
2011/12	Police House - 10 Clifton Court, Workington	125,000	1,320	123,680
2010/11	Police House - 52 Whitestiles, Seaton	115,500	1,924	113,576
2010/11	Police House - 6 Helsington Road, Kendal	216,000	2,668	213,332
2009/10	Police House - 3 Derwent Drive, Kendal	155,000	4,857	150,143
Please note there were no property disposals in 2014/15				0
Total		**5,104,550**	**83,109**	**5,021,441**

Public Accountability Conference
16 February 2022
Agenda Item No 08c

Joint Audit Committee
16 March 2022
Agenda Item No 12

Office of the Police and Crime Commissioner Report

Title: Borrowing, Treasury Management, Investment and MRP Strategies 2022/23 (including Prudential Indicators)

Report of the Joint Chief Finance Officer

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

Purpose of the Report

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 with the 2017 codes and accompanying guidance notes. New codes were issued in December 2021 but the accompanying guidance notes have not yet been released. The most urgent changes around commercialisation strategies are not relevant to the Police and Crime Commissioner and all other changes must be adopted for the 01 April 2023. 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 2022/23.

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:

Treasury Management Definition

'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.'

Recommendations

The Commissioner is asked to:

1. Approve the Borrowing Strategy for 2022/23 as set out on pages 8-9
2. Approve the Investment Strategy for 2022/23 as set out on pages 10-13
3. Approve the Treasury Management Prudential Indicators as set out on pages 15-16
4. Approve the other Prudential Indicators set out on pages 17 to 21
5. Approve the Minimum Revenue Provision Policy Statement for 2022/23 as set out on page 22
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.
7. Delegate to the Joint Chief Finance Officer any non-material amendments arising from scrutiny of the strategy by the Joint Audit Committee.

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.

Peter McCall

Borrowing, Treasury Management, Investment, and MRP Strategies 2022/23 (Including Prudential Indicators)

Treasury Management Strategy Statement 2022/23

Contents

Key Messages

Approval of an Annual Treasury Management Strategy is a statutory requirement of the Commissioner.

This Strategy aims to provide the Commissioner with a low risk, yet suitably flexible, approach to Treasury management.

General Principles

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.

The Treasury Management Strategy has been prepared in line with the model guidance produced by Link Asset Services 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.

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

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

Key Messages

The Commissioners priority for investments will **always** be ranked in the order of:

General Principles (Continued)

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**.

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 2022/23 and forecasts for future years have been updated in light of the latest available information as part of the financial planning process.

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, 2017 and recently updated in 2021. 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, starting at page 10. Finally, the Commissioner's current treasury advisor's Link Asset Services 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.

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.

Key Messages

Scrutiny of the Commissioners treasury activities is the responsibility of the Joint Audit Committee, including:

- Quarterly Reports
- Year End Report
- Treasury Risk Management
- Review of Assurances

As a minimum a rolling 12-month cash flow forecast is maintained and is audited as part of the statutory accounts to support the principle that the Commissioner is operating as a 'going concern'

General Principles (Continued)

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).

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.

The Commissioner complies with the provisions of section 32 of the Local Government Finance Act 1992 to set a balanced budget. This report fulfils the legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and MHCLG Guidance.

Treasury Management Cash Flow Forecast

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 on page 8 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.

Key Messages

Investment returns and borrowing rates are likely to remain low by historical standards during 2022/23 but to be on a gently rising trend over the next few years. However many factors can impact that forecast.

The Commissioner continues to utilise reserves in place of new borrowing to fund the capital programme.

Treasury Management Cash Flow Forecast (Continued)

The estimated treasury position at 31st March 2022 and for the following financial years are summarised below:

Estimated Treasury Position	Estimate 2022/23 £m	Estimate 2023/24 £m	Estimate 2024/25 £m	Estimate 2025/26 £m
External Borrowing	0.00	0.00	0.00	0.00
Interest Payments	0.00	0.00	0.00	0.00
Investments (average)	19.157	13.063	5.125	2.241
Interest Receipts	0.002	0.010	0.010	0.010

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 on page 7 below. The estimate for interest receipts in 2022/23 is £10k (latest forecast for 2021/22 is £2k). The estimated receipts have been left at the minimal level of £10k as the timing of future external borrowing is not known and decisions regarding the end of the PFI contract are still to be made.

The Commissioner's underlying need to borrow, as measured by the Capital Financing Requirement (CFR), is estimated to be £20.97m at the start of the 2022/23 financial year. This includes £4.20m 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 08b) 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.

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.

Key Messages

Inflation is expected to peak in April and the likely response will be the next base rate increase

Treasury Management Interest Rate Forecast

- The GDP in October rose by a disappointing 0.1% month on month which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November.
- The CPI inflation figure for November spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply - gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies.
- The labour market statistics for the three months to October and the single month of October were released. The fallout after the furlough scheme ended on 30th September, (about one million people were still on furlough), was smaller and shorter than the Bank of England had feared - unemployment did not increase hugely in October. Indeed, vacancies rose to a record 1.219m in the three months to November showing there were acute shortages of labour.

These indicators were enough to give the Monetary Policy Committee (MPC) the assurance that it could press ahead to raise Bank Rate at this December meeting – a vote of 8-1 saw it rise by 0.15% from 0.10% to 0.25%. The next increase in Bank Rate was originally predicted to be in February or May, dependent on how severe an impact there is from Omicron. There were no January lockdowns so with inflation expected to peak between 5 and 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.

Interest Rates are forecast to rise steadily over the medium term.

Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022. However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next downturn; all rates under 2% are providing stimulus to economic growth. The Commissioners advisors, Link Asset Services have added 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate, as shown in the table below, but the actual timings in each year is difficult to predict.

Base Rate Estimates	2021/22	2022/23	2023/24	2024/25	2025/26
Quarter 1	0.10%	0.25%	0.75%	1.00%	1.25%
Quarter 2	0.10%	0.50%	0.75%	1.00%	1.25%
Quarter 3	0.10%	0.50%	0.75%	1.00%	1.25%
Quarter 4	0.25%	0.50%	0.75%	1.00%	1.25%

Key Messages

The PCC has an increasing Capital Financing Requirement due to the capital programme, but has modest investments, and will therefore need to borrow in the near future.

Borrowing Strategy

<u>Long Term Borrowing</u>

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 2022/23 and beyond.

Capital Financing	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Balance B/fwd	22.21	21.60	20.97	20.32	21.26	27.93
Plus Capital Expenditure financed from borrowing	0.00	0.00	0.00	1.62	7.38	0.00
Less MRP for Debt Redemption	-0.61	-0.63	-0.65	-0.68	-0.71	-0.93
Balance C/Fwd	**21.60**	**20.97**	**20.32**	**21.26**	**27.93**	**27.00**

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 elsewhere on the agenda (see item 08b).

Key Messages

Diversification of investments continues to provide a level of liquid cash that is suitable for the Commissioners expenditure profile whilst total investment balances remain high. This will continue to be monitored as levels of investments fall and if necessary, a minimum level of liquid cash to be maintained will be set.

Short term borrowing from other Local Authorities may be needed in the future to manage short term cash flow shortfalls.

Borrowing Strategy (Continued)

The Commissioner is not expected to have any external borrowing at the start of 2022/23. Given that the CFR is forecast to be £20.97m this effectively means that the Commissioner will be funding over £16.77m of capital spend from internal resources (CFR £20.97m less £4.20m in relation to the PFI).

Currently, there is a significant differential between investment rates at 0.25% and the rate at which long term finance can be procured, which despite standing at historically low levels, will still cost over 2.4%+ 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, 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.

The Commissioner's predecessors had previously raised all of its long-term borrowing from the PWLB (Public Works Loans Board) but other sources of finance are now available and being investigated, such as local authority loans and bank loans, that may be available at more favourable rates.

<u>Short Term Borrowing</u>

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.

Key Messages

The Investment Strategy for 2022/23 remains broadly the same as in previous years as there has been little change in the markets or counterparties.

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

The appropriate balance between risk and return is sought but with returns so low there is little to be gained from exposing the Commissioner to extra risk.

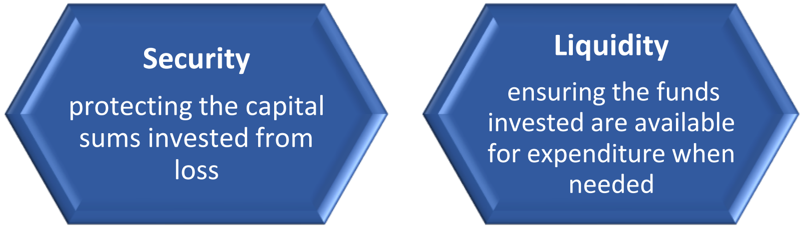
Investment Strategy

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.

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



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.

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.

Key Messages

In accordance with guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the commissioner applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

The key ratings used to monitor counterparties are the Long Term ratings.

Investment Strategy (Continued)

The Commissioner holds significant balances of invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2021/22, the Commissioner's investment balance has ranged between £5.87m and £34.17m. The larger sum was due to the receipt in July 2021 of £21.07m pension top up grant from the Home Office, which is drawn down steadily over the remainder of the year. Balances in 2022/23 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 £31m.

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, 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 (a CDS is a financial derivative or contract that allows an investor to "swap" or offset credit risk with that of another investor)
- 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 2022/23 remains the same. The decision to enter into an approved 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. The use of property funds would further diversify the Commissioners' portfolio, provide a longer-term investment and increase yield whilst maintaining security. However, given the current economic uncertainty arising from Covid 19 recovery it is unlikely that they will be pursued.

A full explanation of each class of asset is provided in **Appendix A** together with a schedule of the limits that will be applied.

Key Messages

The Joint Chief Finance Officer (subject with consultation with the Commissioner) will be granted delegated authority to amend or extend the list of approved counterparties should market conditions allow.

No plans to use derivatives – this would require explicit approval.

Investment Strategy (Continued)

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 triennial renewal of the contract. Meetings with the advisors to discuss treasury management issues are held on a regular basis.

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 2022/23. 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. A derivative is a financial security with a value that is reliant upon or derived from, an underlying asset or group of assets. The derivative itself is a contract between two or more parties, and the derivative derives its price from fluctuations in the underlying asset.

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.

Key Messages

The cash flow forecast is maintained for a minimum rolling 12 months. This allows assessment of the ability to invest longer term and identifies areas where short term borrowing may be required.

Investment Strategy (Continued)

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 £2m 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 2022/23 amounts to £10k (£10k 2021/22) 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.

Key Messages

The 'Treasury Management Practices' statement is updated for each year, scrutinised by the Joint Audit Committee and published on the Commissioner's website alongside this strategy.

Treasury Risk and Treasury Management Practices

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 sets out in some detail defined treasury risks and how those risks are managed on a day to day basis. The CIPFA Code of Practice on Treasury Management recommends the adoption of detailed Treasury Management Practices (TMPs). As outlined 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 cash flow 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.

Key Messages

The PCC currently has no external debt and does therefore not need to set limits on the maturity of debt in each period.

Treasury Management Prudential Indicators

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.

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:

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

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.

Key Messages

Compliance with the indicators will be presented to the PCC Public Accountability Conference and the Joint Audit Committee in the quarterly Treasury Activities report.

Treasury Management Prudential Indicators (Continued)

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	2021/22	2022/23	2023/24	2024/25	2025/26
Limit on principal invested beyond one year	£2m	£2m	£2m	£2m	£2m

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. The new 2021 code makes this mandatory from 01 April 2023. On the basis that Link Asset Services Ltd 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 adhere to the code from 01 April and produce the liability benchmark.

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.

Key Messages

Other Prudential Indicators 2022/23

As per the 2017 CIPFA Prudential Code for Capital Finance (re-affirmed in the 2021 code) and the accompanying guidance notes the Commissioner is required to produce a number of indicators to assist understanding and to evaluate the prudence and affordability of the capital expenditure plans and the borrowing and investment activities undertaken in support of this.

Capital Expenditure and Capital Financing

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on council tax.

Capital Expenditure	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Capital Expenditure	2.81	6.76	7.22	12.28	12.23	3.71

Capital Financing	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Capital Receipts	0.00	0.08	0.00	1.18	0.38	0.11
Government Grants	0.07	2.00	2.20	1.69	0.00	0.00
Revenue Contributions	2.74	4.68	5.02	7.79	4.47	3.60
Total Financing	**2.81**	**6.76**	**7.22**	**10.66**	**4.85**	**3.71**
Borrowing	0.00	0.00	0.00	1.62	7.38	0.00
Total Funding	**0.00**	**0.00**	**0.00**	**1.62**	**7.38**	**0.00**
Total Financing and Funding	**2.81**	**6.76**	**7.22**	**12.28**	**12.23**	**3.71**

Key Messages

Capital Finance Requirement – 'The mortgage you are yet to take'

Minimum Revenue Provision – 'Annual Mortgage repayments'

The Authorised Limit is a statutory limit (Local Government Act 2003) above which the Commissioner has no authority to borrow.

Other Prudential Indicators 2022/23 (Continued)

Capital Financing Requirement

The Capital Financing Requirement (CFR) shows the difference between the capital expenditure and the revenue or capital resources set aside to finance that spend. The CFR will increase where capital expenditure takes place and will reduce with the Minimum Revenue Provision (MRP) made each year from the revenue budgets.

Capital Financing	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Balance B/fwd	22.21	21.60	20.97	20.32	21.26	27.93
Plus Capital Expenditure financed from borrowing	0.00	0.00	0.00	1.62	7.38	0.00
Less MRP for Debt Redemption	-0.61	-0.63	-0.65	-0.68	-0.71	-0.93
Balance C/Fwd	**21.60**	**20.97**	**20.32**	**21.26**	**27.93**	**27.00**

Authorised Limit

The represents a control on the maximum level of external debt. Whilst not desired it could be afforded by the authority in the short term but is not sustainable in the longer term. The Authorised Limit gauges events that may occur over and above those transactions which have been included in the Operational Boundary. The Authorised Limit must not be breached.

Authorised Limit for External Debt	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
External Borrowing	23.70	23.28	22.86	24.06	31.02	30.43
Other Long Term Liabilities	4.40	4.20	3.97	3.70	3.40	3.06
Total Authorised Limit	28.10	27.47	26.82	27.76	34.43	33.50

Key Messages

The Operational Boundary limit is not an absolute limit of external debt and may be exceeded temporarily.

Currently the Commissioner has no external borrowing.

Other Prudential Indicators 2022/23 (Continued)

Operational Boundary

The Operational Boundary is a limit beyond which external debt is not normally expected to exceed. This limit is not an absolute limit but it reflects the expectations of the level at which external debt is not normally expected to exceed.

Occasionally, the Operational Boundary may be exceeded (but still not breach the Authorised Limit) following variations in cash flow. Such an occurrence would follow controlled treasury management action and may not have a significant impact on the prudential indicators when viewed all together. Consistent with the Authorised Limit, the Joint Chief Financial Officer has delegated authority, within the total Operational Boundary, to effect movement between the separately identified and agreed figures for External Borrowing and Other Long-term Liabilities. Any such changes will be reported to the Commissioner and the Joint Audit Committee meeting following the change.

Operational Boundary for External Debt	2020/21 £m	2021/22 £m	2021/22 £m	2022/23 £m	2024/25 £m	2025/26 £m
External Borrowing	22.20	21.78	21.36	22.56	29.52	28.93
Other Long Term Liabilities	4.40	4.20	3.97	3.70	3.40	3.06
Total Operational Boundary	26.60	25.97	25.32	26.26	32.93	32.00

Actual External Debt

The Commissioner's actual external debt as at 31 March 2021 will be £4.20m, comprising only of other long-term liabilities of £4.20m 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 previous external borrowing with the PWLB (Public Works Loans Board) was repaid during 2012/13.

Key Messages

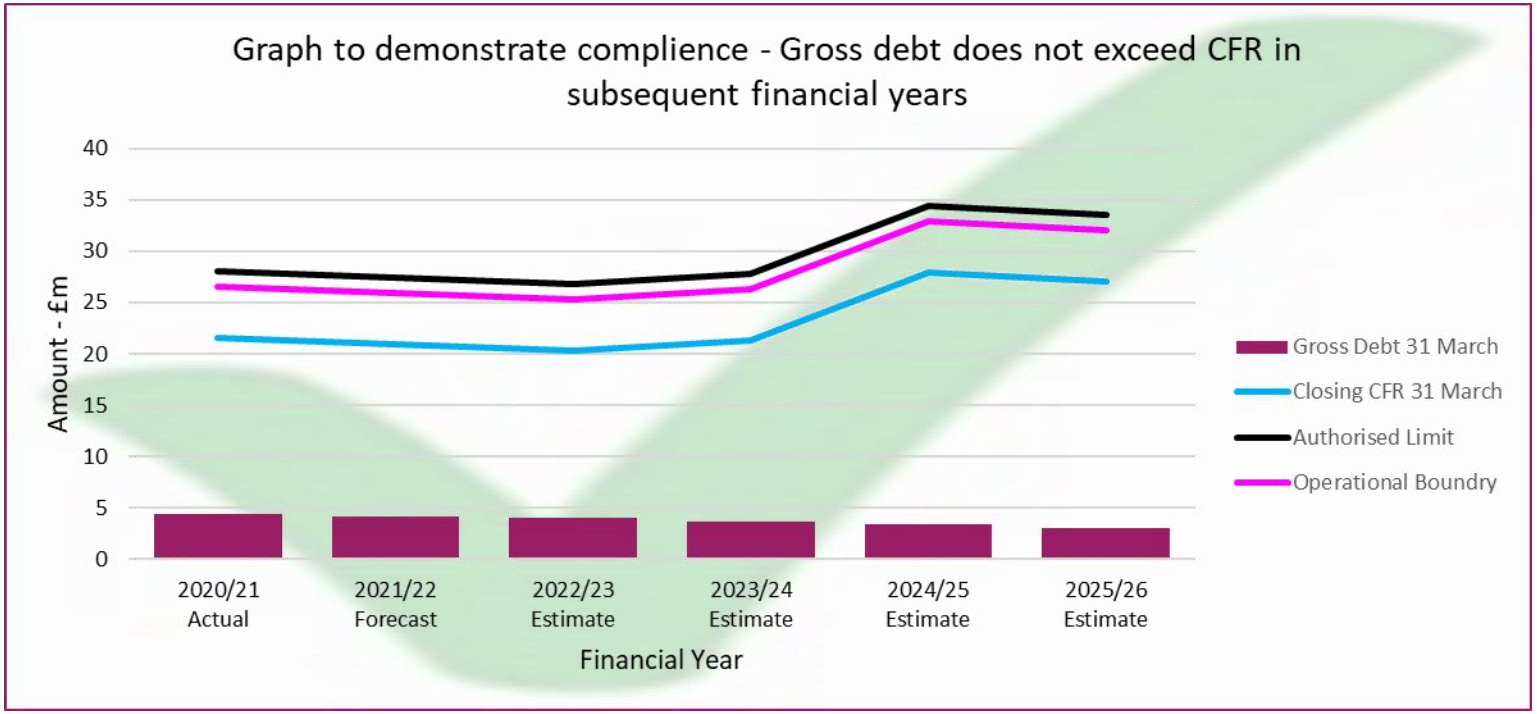
Other Prudential Indicators 2022/23 (Continued)

Gross Debt and the Capital Financing Requirement

The Commissioner should only borrow to support a capital purpose, and borrowing should not be undertaken for revenue or speculative purposes. Gross debt, except in the short term, should not exceed CFR in the preceding year plus the estimates for CFR for the three subsequent years.

Gross Debt and Capital financing requirement	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Closing CFR 31 March	21.60	20.97	20.32	21.26	27.93	27.00
Gross Debt 31 March	4.40	4.20	3.96	3.70	3.40	3.06

Using the figures from the above stated indicators the graph below demonstrates compliance as gross debt remains below CFR, authorised and operational limits for all years presented:



Other Prudential Indicators 2022/23 (Continued)

Ratio of financing costs

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

Financing Costs include the amount of interest payable in respect of borrowing or other long-term liabilities and the amount the Commissioner is required to set aside to repay debt, less interest and investments income. The Commissioner's financing costs can be both positive and negative dependent on the relative level of interest receipts and payments.

The actual Net Revenue Stream is the 'amount to be met from government grants and local taxation' taken from the annual Statement of Accounts, budget, budget proposal and medium-term financial forecast. These figures are purely indicative and are in no way meant to indicate planned increases in funding from Council Tax.

Ratio of Financing Costs to Net Revenue Stream	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Investment income	0.02	0.01	0.01	0.01	0.01	0.01
MRP	0.61	0.63	0.65	0.68	0.71	0.93
Financing Costs	**0.59**	**0.62**	**0.64**	**0.67**	**0.70**	**0.92**
Net Revenue Stream	118.76	123.13	129.97	132.57	135.95	138.93
Ratio	0.50%	0.50%	0.49%	0.51%	0.52%	0.66%

Key Messages

The broad aim of the Minimum Revenue Provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

In relation to the commissioner this would be over 50 years as borrowing is only used to finance Land and Building schemes.

Calculation will be based on Option 1 for pre 2008/9 debt and option 3 thereafter.

The Commissioner is also permitted to make additional voluntary payments if required (voluntary revenue provision VRP) although there are no plans to make any in the medium-term forecasts.

Annual MRP Statement for 2022/23

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.

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.

It is proposed that The Commissioner's MRP policy for 2022/23 is unchanged from that of 2021/22 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. 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. 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 2022/23.

Counterparty Selection Criteria and Approved Counterparties

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 there are no amendments to the criteria used in determining approved investment counterparties for 2022/23 compared to those in operation for 2021/22.

Counterparty Selection Criteria

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 2022/23 strategy. The investment limits and duration are linked to the credit rating and type of counterparty at the time the investment is made.

The credit worthiness of counterparties is monitored on an ongoing basis in conjunction with the Commissioner's treasury management advisors Link Asset Services 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. If 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.

The approved investment counterparties for the 2022/23 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

A more detailed explanation of each of these counter party groupings in provided in Schedule B (page 26).

Key Messages

Whilst these limits also apply to the Commissioners own bankers in the ordinary course of business, if that bank's lowest rating falls below 'A-' balances will be maintained for operational purposes only and minimised on a daily basis. A non-investment limit of £1m will apply in such circumstances

Changes to accounting rules mean that certain financial instruments need to be valued at year end and paper gains/losses at the balance sheet date charged to the Statement of Comprehensive Income and expenditure Account. Such instruments are not currently key to this strategy.

Counterparty Groupings / Limits

The criteria for approving investment counterparties have been devised, grouped, graded and investment limits attached as detailed in Schedule A (page 25). 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 2022/23 are the same as the limits for 2021/22. 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 cash flow is rewarded by a slightly increased interest rate. Link Asset Services Ltd suggest that these funds are used for longer term investments and the ordinary money market funds to manage cash flow.

Description of Credit Ratings

As outlined above the credit worthiness of counterparties is monitored on an ongoing basis in conjunction with the Commissioner's treasury management advisors Link Asset Services Ltd.

Key Messages

The UK Government is considered the safest place to invest as it has never defaulted and therefore minimum credit ratings do not apply.

The Commissioner has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA.

All investments are Sterling. Therefore, the Commissioner is not exposed to any foreign exchange / currency risk.

Schedule A – Counterparty Groupings and Associated Limits

		Investment Limits				
Credit Rating	Maximum	1 Banks Unsecured	2 Banks Secured	3 Government	4 Registered Providers	5 Pooled Funds
Category Limit 2020/21	*Amount*	*£20m*	*£20m*	*Unlimited*	*£10m*	*£20m*
	Duration					
Individual Institution/Group Limits						
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 2022/23 are based on the potential maximum available for investment during the year of up to £40m. It should also be noted that as outlined on page 23 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 £2m.

Key Messages

The Commissioners priority for investments will **always** be ranked in the order of

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.

Peter McCall

Office of the Police & Crime Commissioner

REQUEST FOR POLICE & CRIME COMMISSIONER DECISION - (N° 004 / 2022)

TITLE: 2022/23 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 2022/23 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 2023/24 to 2026/27 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 09a), taking into account his advice in respect of his decisions on the proposed budgets.

Appendix B of the attached report 'Budget 2022/23 and Financial Forecasts 2023/24 to 2026/27 (item 09b) 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 2022/23 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 £282.15 for 2022/23, an increase of £9.99 or 3.67%, being the amount within the budget resolution

The commissioner is also asked to approve the Reserves Strategy for 2022/23 which is provided as a separate report (item 09c).

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 2022/23 budgets for the Constabulary provide resources to maintain establishment numbers.

3.5. I.T.: The budgets and capital programme are supported by a comprehensive Digital Data and Technology 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. 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 2022/23 and Financial Forecasts 2023/24 to 2026/27

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 If yes, for what reason:

Until what date (if known):
Is there a **Part 2** form - NO (If Yes, please ensure Part 2 form is completed prior to submission)

ORIGINATING OFFICER DECLARATION:

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. **Signed: …………………………………………………. Date: …………………………….**

OFFICER APPROVAL

Chief Executive / Deputy Chief Executive (delete as appropriate) 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). **Signature: Date:**

Media Strategy The decision taken by the Police & Crime Commissioner may require a press announcement or media strategy.
Will a press release be required following the decision being considered? YES If yes, has a media strategy been formulated? YES Is the media strategy attached? NO What is the proposed date of the press release: 16th February 2022

Cumbria Office of the Police and Crime Commissioner

Public Accountability Conference 16 February 2022

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 working in conjunction with nominated budget-holders. Estimates are subject to scrutiny by financial services staff and the Constabulary's Chief Officer Group, 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. Funding 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 five financial years, the MTFF was previously 4 years but has been increased to 5 years in accordance with best practice as set out in the financial management code. 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 (£72.604m). The next most significant funding source is Council Tax (£49.095m). The balance of expenditure is funded from specific grants, reserves and fees and charges. The 2022/23 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 2022/23 in respect of funding. This level of assurance cannot be given to resources beyond 2022/23. A sensitivity analysis of key aspects of the budget is provided at Appendix A.

3.2 In autumn 2021 the government completed a 3 year spending review. In December, detailed figures were provided to forces for the 2022/23 financial year with high level estimates of the overall funding for policing for the following 2 years. The 2022/23 grant settlement included funding for the recruitment of the third and final tranche of police officers as part of the Government's pledge to provide an additional 20,000 officers nationally (known as Operation Uplift) by 2022/23. Cumbria's share of the operation uplift officers amounted to 51 in phase 1, 50 in phase 2 and 68 in phase 3 (169 additional officers in total). A proportion of grant funding is dependent on successful achievement of the force's Operation Uplift target.

3.3 The grant settlement for 2022/23 also provided a continuation of funding to offset much of the financial impact of increased police officer pension contributions applicable from 1st April 2019. Whilst it has been assumed that this funding will continue in future years, this is not guaranteed, collectively, these factors mean that the calculation of grant funding forecasts beyond the 2022/23 financial year are uncertain.

3.4 In recent years the Government has protected core 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. Police and Crime Commissioners were given the flexibility to increase council tax by up to £10 for a band D property in 2022/23. The spending review outlined that the same level of flexibility will also be available in 2023/24 and 2024/25, and therefore the Medium-Term Financial Forecast assumes this level of council tax increase will continue for the duration of the forecast.

3.5 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

3.6 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 2022/23 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 £9.99 increase on the band D council tax, which represents an increase of 3.67%. 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

3.7 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. This figure has remained constant for a number of years and it is assumed that this will continue over the length of the Medium-Term Financial Forecast.

3.8 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.

3.9 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 2023/24 settlement onwards.

3.10 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. This risk is heightened by the financial hardships being felt by many households during the current pandemic. 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

3.11 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 2022/23 but may go up or down compared to the forecasts for the four final years of the medium term financial forecast. Due to current economic uncertainty as a result of the covid-19 pandemic, the medium term forecast assumes only a modest 0.40% annual increase in tax base. Estimates are revisited on an annual basis.

3.12 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 was, 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 and 2019/20 where a small shortfall was declared. During 2020/21 as a result of the covid-19 pandemic district councils experiences a significant deficit for 2020/21 and a reduced taxbase. The government announced that this deficit (where it related specifically to 2020/21) could be spread over three years (2021/22 to 2023/24). The surplus shown for 2022/23 is £11k and this represents £181k surplus arising in 2021/22 less £170k in respect of the third share of the 2020/21 deficit. At this stage only the 1/3rd share of £170k has been reflected in the forecasts for 2023/24, beyond this there has been no forecast budget included for surplus of deficit. The Government has provided additional local council tax support, which will mitigate this risk in the short term, but the economic impact of the pandemic will need to be monitored over future years.

Council Tax/Council Tax Grant Risk

3.13 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 2022/23. 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

3.14 The budget for 2022/23 is presented based on notifications of the actual financial settlements. Beyond 2022/23 financial forecasts are based on estimates. The 2021 spending review also gave details of grant funding for 2023/24 and 2024/25 at an overall service level. The Policing Minister has indicated that the additional grant funding in future years is intended to maintain officer numbers recruited during Operation Uplift and contribute towards meeting pay increases. On this basis, for the purposes of medium-term financial planning, it has been assumed that the additional funding in future years will be directed towards forces with Cumbria's share extrapolated from the national totals. It has also been assumed that similar increases will continue beyond the period covered by the spending review. There is a risk that this is too optimistic, for example if a proportion of the additional funding is retained centrally or directed towards other priorities and that as a result the level of grant received by Cumbria will be lower than those in the forecast.

3.15 In 2021 the Home Office announced its intention to review the Police Funding Formula, which is the mechanism by which funding is allocated across individual forces. The new formula may be implemented as early as 2023/24. The medium-term financial forecast currently assumes 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, as the new formula is not sufficiently developed to reach any conclusions on its effect. This is considered to be a balanced approach given the high level of uncertainty regarding the timing and impact of any changes to national funding formula.

Capital Grants and Capital Receipts

3.16 The capital budget has been developed as a 10 year programme. Government capital allocations are only given on an annual basis and in the settlement for 2022/23 the capital grant has been removed altogether. The level of this grant in 2021/22 was already at such a low level (£97k) that it does not constitute a significant risk. Overall funding within the programme is also to some degree reliant on capital receipts and this presents some risk to funding given the economic climate and market conditions. However, the programme is now heavily reliant on support from the revenue budget, supported by limited use of earmarked capital reserves and prudential borrowing, which have been factored into the revenue budget and MTFF 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 Now that the building works on the HQ site have been completed, the capital programme incorporates the delivery of one remaining major estates capital scheme. This is a longer term option to develop a scheme in West Cumbria to manage estates resilience issues within the west of the county. 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 2027 includes a significant number ICT capital schemes, including the implementation of a new Records Management System and 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 a high level of annual contributions from the revenue budget and a specific capital reserve for the West Cumbria scheme. In addition, any significant level of capital investment is also dependent 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. The capital programme presented shows an unfunded gap over 10 years of £7.6m. The estimates for 5-10 years are built on a number of assumptions, which, particularly in rapidly changing sectors such as ICT, are difficult to accurately predict. This means that projected costs in the later years of the capital programme become increasingly indicative and should be treated with caution. Nevertheless, the funding gap identified beyond year 4 of the capital programme presents a risk that it will no longer meet the tests of 'affordability, prudence and sustainability' as set out in the Prudential Code. The only ways in which this can be realistically addressed is through either capital savings or further increased support from the revenue budget, which will, in turn, increase the requirement to deliver revenue savings. The ten-year capital programme deficit of £7.62m would equate to an increase in revenue support of £0.76m pa over 10 years or £1.27m pa over the later 6 years. The potential implications for the revenue budget have not yet 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.

Capital Financing

4.6 The capital programme is financed through direct revenue contributions, capital grants, reserves and borrowing. The Capital Financing Requirement reflects an underlying need to borrow to finance capital schemes, but currently 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 forecast at £20.97m at the end of the 2021/22 financial year. 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 Inflationary pressures are currently more volatile than they have been for almost a generation as the world economy begins to emerge from the pandemic. Against this background, at a local level pay costs are provided for within the budget on the basis of a 3.5% pay increase for 2022/23 following the Chancellor's announcement in the autumn statement of the end of the public sector pay freeze. The remaining years of the MTFF assume a return to modest pay increases of 2.5% in 2023/24 and 2.00% for the remaining years of the MTFF to 2026/27. Pay costs account for the by far the most significant element of the budget, which is therefore highly sensitive to variations from the budget assumption. For 2022/23 the majority of the non-pay budget lines have also been increased by 3.5% for general inflation, for 2023/24 general price inflation is forecast on the basis of 2.5% with 2.00% in the remaining years of the MTFF, in line with Bank of England long term forecasts. Inflation on fuel and energy costs are based on higher 5% annual increases. There is a risk that the current inflationary pressure is more pro-longed than currently assumed, with the potential to impact negatively on the financial position.

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 and staff numbers at a planned level can be operationally difficult as a result of the timing of turnover and lead in time to recruit replacements. 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. 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.

4.10 Specific risks regarding the potential financial impact of meeting pensions obligations arising from the McCloud judgement and the implementation of the Emergency Services Network (ESN) have been specifically recognised and will continue to be closely monitored.

Savings Requirements/Budget Management

4.11 The overall savings requirement over 5 years to balance the budget is around £6.6m 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 £26m of savings since 2010, additional savings will be challenging to deliver. Delivery of savings may also be constrained by Operation Uplift, which will require savings to be focused on relatively small areas of the budget. 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, reviewing the workforce mix, collaboration with other forces and public sector bodies, income generation, 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, with decisions required within a relatively short term period to enable the budget and reserves strategy to be sustainable.

4.12 The more significant immediate risk is in respect of budget management. The 2021/22 budget is currently forecasting to underspend by £0.1m. The primary reasons for the forecast underspend relate reduced police staff costs as a result of high levels of vacancies and increased income offset which are largely offset by increases in police officer pay as a result of the profile of recruitment of police officers and pressure being experienced on overtime budgets across the Constabulary and therefore does not point to any fundamental weakness in the financial management process.

4.13 The overall financial position in 2021/22 does not present any material risks and to some degree has been mitigated by the favourable 2022/23 grant settlement. However, the tightness of the budget position is indicative of a growing financial pressure, which will require careful management on an on-going basis. The Constabulary and Commissioner are working together to monitor the in year forecast, should this not ultimately prove possible, any overspend will be funded from draw down of the budget support reserve, which has been established for this purpose.

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 £3.6m for 2022/23. 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 a budget support reserve of £6.4m, which is intended, alongside savings plans, to manage medium term budget pressures arising from increasing demands and constrained funding. A further £3.2m of budget stabilisation, insurance and operational reserves and contingencies can be used to manage budget pressures and unforeseen events 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 Additional cover is provided through the position on specific reserves. Whilst these are earmarked, a number of the reserves 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 09c 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. However, the capital deficit arising in 2026/27 gives rise to a concern that revenue support for the capital programme will need to be increased in future if savings cannot be identified in the capital programme. Particular attention will need to be focussed on the cost of implementing the Emergency Services Network. 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

16th February 2022

Appendix A

Budget 2022/23 and MTFF to 2026/27 Sensitivity Analysis

The table below illustrates the sensitivity of the budget and MTFF to changes in key assumptions by 0.5% or 1%. The table below includes the impact of an increase in assumptions, a reduction will produce and equal and opposite change. The table below shows increases in income as a negative figure (in brackets) and increases in expenditure as a positive figure.

	Budget Area	Sensitivity Analysis	2022/23	2023/24	2024/25	2025/26	2026/27
Expenditure	Pay Inflation	*Current assumption in MTFF*	*3.50%*	*2.50%*	*2.00%*	*2.00%*	*2.00%*
		Impact in £000's of 0.50% increase in pay inflation	-	*£302k*	*£531k*	*£541k*	*£552k*
	General Inflation	*Current assumption in MTFF*	*3.50%*	*2.50%*	*2.00%*	*2.00%*	*2.00%*
		Impact in £000's of 1% increase in general inflation	-	£197k	£201k	£205k	£209k
	Fuel Inflation	*Current assumption in MTFF*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
		Impact in £000's of 1% increase in fuel inflation	-	*£12k*	*£12k*	*£12k*	*£12k*
	Police Pensions	*Current assumption in MTFF*	*31.00%*	*31.00%*	*32.00%*	*32.00%*	*32.00%*
		Impact in £000's of 1% increase in contribution rate	-	£436k	£450k	£450k	£460k
	Local Govt Pensions	*Current assumption in MTFF*	*18.40%*	*18.40%*	*20.40%*	*20.40%*	*20.40%*
		Impact in £000's of 1% increase in contribution rate	-	*£220k*	*£230k*	*£230k*	*£232k*
Funding	Council Tax Precept	*Current assumption in MTFF*	*3.67%*	*3.54%*	*3.42%*	*3.31%*	*3.20%*
		Impact in £000's of 1% increase in precept	-	(£510k)	(£530k)	(£550k)	(£569k)
	Council Tax Base	*Current assumption in MTFF*	*1.05%*	*0.40%*	*0.40%*	*0.40%*	*0.40%*
		Impact in £000's of 1% increase in taxbase	-	(£510k)	(£530k)	(£550k)	(£569k)
	Government Grant	*Current assumption in MTFF*	*6.01%*	*1.15%*	*1.70%*	*1.34%*	*1.34%*
		Impact in £000's of 1% increase in Govt. grant	-	(£734k)	(£747k)	(£757k)	(£767k)

Cumbria Office of the Police and Crime Commissioner

Public Accountability Conference 16 February 2022

Budget 2022/23 and Financial Forecasts 2023/24 to 2026/27

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 2022/23 and the level of council tax to support the budget. The report also provides provisional estimates for the four years to 2026/27, ensuring budget decisions are taken in the context of the medium term financial forecast. The MTFF which was previously presented over 4 years in total has now been extended to cover a 5 year timeframe in line with best practice.

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 2022/23 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 2022 - 2027	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	2026/27 £000s
Police Pay - Police Officer Pay & Allowances	69,370	73,982	77,404	80,715	83,575	86,690
Police Pay - Contribution to Pension Fund A/c	26,506	21,215	17,492	15,590	15,009	15,252
Police Pay - Ill Health & Injury Pensions	1,262	1,316	1,343	1,370	1,397	1,425
PCSO Pay	1,894	1,917	2,225	2,263	2,310	2,344
Staff Pay	25,972	27,357	28,778	29,537	30,253	30,983
Other Employee Costs	2,217	3,138	2,808	2,864	2,921	2,980
Premises Costs	4,571	4,920	5,068	5,191	5,317	5,446
Transport Costs	2,369	2,393	2,482	2,557	2,635	2,715
Supplies & Services	11,061	10,526	10,142	10,345	10,552	10,763
Third Party Expenditure	2,416	3,265	3,347	3,414	3,482	3,551
LGPS Past Service Costs	22	23	24	24	25	26
Insurances/Management of Change	909	1,072	1,169	1,264	1,379	1,500
Commissioned Services	2,216	2,351	2,351	2,351	2,351	2,351
Accounting and Financing Costs	5,311	6,180	8,948	5,801	4,940	4,968
Contributions to Reserves Revenue	96	96	46	46	46	46
Contributions to Reserves Capital	0	0	0	0	0	0
Total Expenditure	**156,192**	**159,751**	**163,627**	**163,332**	**166,192**	**171,040**
Funded by						
Home Office Pension Top Up Grant	(26,506)	(21,215)	(17,492)	(15,590)	(15,009)	(15,252)
Other Grants & Contributions	(8,604)	(9,928)	(9,939)	(9,948)	(9,957)	(9,966)
Sales, Fees, Charges & Rents	(5,261)	(5,118)	(5,107)	(5,269)	(5,434)	(5,571)
Interest/Investment Income	(10)	(10)	(10)	(10)	(10)	(10)
Revenue Reserves Drawdown	(449)	(1,181)	(1,170)	(1,000)	0	0
Capital Reserves Drawdown	(250)	(600)	(3,380)	0	0	0
Formula Grant	(68,490)	(72,604)	(73,436)	(74,684)	(75,684)	(76,684)
Council Tax Income	(46,622)	(49,095)	(50,855)	(52,981)	(54,952)	(56,937)
Total Income/Funding	**(156,192)**	**(159,751)**	**(161,389)**	**(159,482)**	**(161,046)**	**(164,420)**
Net Savings Requirement	**0**	**0**	**2,238**	**3,850**	**5,146**	**6,620**

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 £159.751m in 2022/23 to support an equivalent level of expenditure. In 2023/24 a budget gap arises of £2.2m and this increases to £6.6m by 2026/27. 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 2022/23 the Minister of State for Policing and Fire has again, allowed PCCs a degree of 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 £10 for the next 3 years (for 2021/22 the flexibility was given to increase by £15, in 2020/21 £10, in 2019/20 £24, 2018/19 £12), for Cumbria this sum would represent an annual increase of 3.67%. In combination with the additional grant funding provided by the Government, the proposed increase in the council tax precept for policing of 3.67% has facilitated the recruitment of an additional 68 police officers, which represents Cumbria's share of the third phase of Operation Uplift involving the recruitment of 8,000 officers nationally. This has the effect increasing the establishment of police officers from 1,264 to 1,334 FTE. The remainder of the proposed budget has been produced on a broadly continuation basis, which means that current levels of service have been maintained over the life of the five year forecast.

4. 2022/23 Policing Bodies Grant Settlement

4.1 On the 16th December 2021 the funding allocations for policing bodies in England and Wales were announced. The outcome of the settlement is a formula funding amount of £72.604m for the Cumbria police area for 2022/23, which represents an increase of £4.113m compared to the 2021/22 level of funding. The increase in grant is principally intended to enable the Constabulary to recruit additional officers, as part of the third phase of Operation Uplift (the Government's plan to recruit 20,000 additional officers by the end of 2022/23) and includes both revenue and capital elements. The MTFF assumes that grant funding in 2023/24 and beyond will increase in line with national policing resources announced in the 2021 spending review.

4.2 The settlement confirmed that the current arrangements for formula funding and damping would continue for 2022/23. This means all policing bodies will continue to receive the same proportion of core Government funding as in 2021/22. In 2021 the Home Office announced its intention to re-visit the Home Office police funding formula, which is used to allocate funding across forces, for implementation as early as 2023/24. 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 (£21m), Home Office legacy Council Tax Grants of £4.85m, a specific pensions grant of £1.2m introduced in 2019/20 to offset increased police officer pension contributions and a specific grant of £1.1m, which is conditional on the Constabulary delivering its targeted increase in police officers (+68) as part of phase 3 of Operation Uplift. 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 2022/23 cash levels for the remainder of the MTFF.

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. In a change for 2021/22, the share of collection fund deficits that arose in 2020/21 as a result of the worldwide covid-19 pandemic, has been spread equally over the following three years with the Commissioner being required to fund a third of the actual deficit for 2020/21 in three annual instalments (in 2021/22, 2022/23 and 2023/24). The Commissioner has received a government grant of 75% to offset these deficit amounts. For 2021/22 the district councils are collectively forecasting a small surplus over and above the third share of the 2020/21 deficit, providing a net surplus of £11k to be distributed in 2022/23.

*Council Tax '**Band B**' is the band into which the highest number of properties in Cumbria fall, for this band the increase is £7.77 per annum or 15 pence per week (from £211.68 to £219.45 per annum).*

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 or fixed amount 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 £10 increase on a band D property for the 3 years from 2022/23. **The Commissioner's budget is based on a precept increase of 3.67%. The financial**

implications for residents are that the Band D Council Tax amount would increase to £285.15 for 2022/23, an increase of £9.99.

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 During 2021/22 the PCC received government funding of £782k by way of a council tax support scheme in recognition of the fall in taxbase figures for 2021/22. This funding has added to a reserve that will be drawn down in future years to negate the impact of the reduced taxbase.

The table below sets out the tax base for each district for 2022/23 and the tax base for the prior year. The table shows that the total tax base is estimated to increase by 1,802 band D equivalent properties. Budgets from 2023/24 are based on an assumed annual increase in the tax base of 0.40%. 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 2021/22	Tax Base 2022/23	Increase (decrease)	% change
Allerdale Borough	30,889.76	31,031.82	142.06	0.46%
Barrow Borough	19,695.44	19,899.25	203.81	1.03%
Carlisle City	34,666.41	35,164.84	498.43	1.44%
Copeland Borough	20,772.12	20,850.75	78.63	0.38%
Eden District	20,741.45	20,832.41	90.96	0.44%
South Lakeland District	45,396.81	46,185.17	788.36	1.74%
Total	172,161.99	173,964.24	1,802.25	1.05%

5.5 In addition to the recurrent grant and tax base income, the 2022/23 budget is increased by the net impact of a forecast surplus on the 2021/22 district collection funds. The table below shows the council tax attributable to each district for 2022/23 and the position on each district collection fund (surplus/deficit) for 2021/22.

Council Tax Income 2022/23	Tax base 2022/23	Precept (Band D) £	Council Tax Income £	Declared Surplus/ (Deficit)	Total 2022/23 £
Allerdale Borough	31,031.82	282.15	8,755,628	24,094	8,779,722
Barrow Borough	19,899.25	282.15	5,614,573	(88,303)	5,526,270
Carlisle City	35,164.84	282.15	9,921,760	132,265	10,054,025
Copeland Borough	20,850.75	282.15	5,883,039	101,866	5,984,905
Eden District	20,832.41	282.15	5,877,864	(53,505)	5,824,359
South Lakeland District	46,185.17	282.15	13,031,146	(105,303)	12,925,843
Total	173,964.24	282.15	49,084,010	11,114	49,095,124

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 2022/23 budget is supported by the use of £1.7m of earmarked revenue and capital reserves.

5.7 Fees and charges income is estimated to provide £5.1m in 2022/23 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 some 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 £159.751m can be supported by budgeted income in 2022/23. However, it is anticipated that beyond 2023/24 funding will fail to keep pace with expenditure pressures meaning that by 2026/27 £6.6m savings will be needed to offset rising costs. The key driver in the level of savings requirements is inflationary pressure. The budget and medium-term forecast is based on assumed increase for general inflation and pay inflation at 3.5% in 2022/23, 2.5% in 2023/24 and 2% thereafter in line with Bank of England estimates. Against this backdrop, all expenditure budgets are subject to rigorous scrutiny.

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 continue to 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 public sector bodies and realising benefits from investment in new technology.

7. Capital Funding & Expenditure

7.1 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 and primarily includes investment in ICT, fleet and estates. The programme has historically been funded by a combination of capital grants, capital receipts, reserves, support from the revenue budgeted and borrowing. Over recent years the level of capital grant has reduced significantly as a result of national top-slicing from capital allocations. This grant, which was £97k in 2021/22, was removed from the finance settlement altogether for 2022/23. Beyond 2023/24 both reserves and capital receipts will be largely exhausted and as a result revenue contributions will be the primary source of capital funding. For 2022/23 the revenue budget contributes £4.3m to fund capital, this figure has more than tripled over recent years and is expected to continue at a high level. In the first four years of the medium-term financial forecast the capital programme is fully funded, however a capital funding gap of £3m is forecast in 2026/27, as a result of the planned implementation of the Emergency Services Network (ESN). Work will be undertaken to address the capital deficit.

8. Reserves and Balances

8.1 Over the life of the financial forecast total reserves are planned to reduce from £22m at the start of 2022/23 to £14.9m by end of March 2027, largely due to provision of funding to the support the capital programme. Of the remaining £14.9m, the general reserve of £3.6m is held for managing financial risks and unforeseen events, budget support, stabilisation and insurance reserves/contingencies of £6.5m 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 2022/23** (see item 09c). 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 2022/23. A total of 1369 individuals responded to the survey and the outcome of public consultation has been that the majority of respondents (60%) have agreed with the proposal to increase council tax by £9.99 (3.67%), which is under the maximum allowed amount of £10 on a band D property. The Commissioner has also sought the view of the Chief Constable. The Police and Crime Panel voted unanimously to support the Commissioner's proposal at its meeting on 25th January 2022.

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 2022/23 to 2026/27. The 2022/23 budget is balanced based on a precept increase of £9.99 for a band D property which equates to an increase of 3.67%. In future years savings will be required to offset the forecast deficit of £2.2m in 2023/24 rising to £6.6m per annum by 2026/27. The precept proposal will increase the annual Council Tax attributable to the Commissioner by £9.99 for a Band D property resulting in a Band D Council Tax charge of £282.15.

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 2022/23 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 £282.15 for 2022/23, an increase of £9.99.**

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

16 February 2022

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

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Appendix A

Budget for the Commissioner and the budget for the Chief Constable

Description		Base Budget 2021/22 £	Base Budget 2022/23 £	Base Budget 2023/24 £	Base Budget 2024/25 £	Base Budget 2025/26 £	Base Budget 2026/27 £
Constabulary Funding							
	Police Officer - Pay & Allowances	69,370,540	73,981,725	77,404,470	80,714,849	83,575,494	86,690,352
	Police Officer - Contribution to Pension Fund A/c	26,506,000	21,215,000	17,492,000	15,590,000	15,009,000	15,252,000
	Police Officer - Ill Health & Injury Pensions	1,262,613	1,316,432	1,342,761	1,369,617	1,397,010	1,424,951
	Police Community Support Officers	1,893,869	1,916,574	2,225,315	2,263,391	2,309,659	2,343,853
	Police Staff - Pay & Allowances	25,287,149	26,652,618	28,052,765	28,796,424	29,497,353	30,212,301
	Other Employee Benefits	2,211,809	3,128,708	2,798,517	2,854,488	2,911,578	2,969,810
	Transport Related Expenditure	2,365,626	2,389,429	2,478,994	2,553,630	2,631,022	2,711,008
	Supplies & Services	10,931,144	10,372,454	9,984,578	10,184,270	10,387,956	10,595,716
	Third Party Related Expenditure	2,404,892	3,253,415	3,334,751	3,401,447	3,469,476	3,538,866
	Earned Income	(5,260,984)	(5,117,630)	(5,106,921)	(5,267,946)	(5,433,418)	(5,571,473)
	Total Constabulary Funding	**136,972,658**	**139,108,725**	**140,007,229**	**142,460,169**	**145,755,129**	**150,167,384**
Commissioner's Budget							
	Office of the Police & Crime Commissioner	846,580	894,473	919,440	939,102	957,668	976,605
	Commissioned Services Budget	2,215,782	2,351,126	2,351,126	2,351,126	2,351,126	2,351,126
	Premises Related Costs	4,569,451	4,918,785	5,066,825	5,189,221	5,315,119	5,444,640
	LGPS Past Service Costs	22,300	23,300	23,900	24,500	25,100	25,700
	Insurances & Management of Change	908,717	1,072,346	1,168,790	1,263,590	1,378,990	1,500,190
	Accounting & Financing Costs	5,299,921	6,169,159	8,937,227	5,789,697	4,928,551	4,957,256
	Contributions to Reserves Revenue	95,884	95,884	45,884	45,884	45,884	45,884
	Grants & Contributions	(34,429,538)	(30,560,214)	(26,847,864)	(24,954,597)	(24,382,505)	(24,634,591)
	Grants - Victims & Restorative Justice	(583,172)	(583,172)	(583,172)	(583,172)	(583,172)	(583,172)
	Grants - Capital	(97,482)	0	0	0	0	0
	Interest/Investment Income	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
	Total Commissioner's Budget	**(21,161,557)**	**(15,628,313)**	**(8,927,844)**	**(9,944,649)**	**(9,973,239)**	**(9,926,362)**
Use of Reserves							
	Revenue Reserve Drawdown	(449,080)	(1,181,632)	(1,170,381)	(1,000,250)	(260)	0
	Capital Reserve Drawdown	(250,000)	(600,000)	(3,380,000)	0	0	0
	Total Use of Reserves	**(699,080)**	**(1,781,632)**	**(4,550,381)**	**(1,000,250)**	**(260)**	**0**
Budget Requirement		**115,112,021**	**121,698,780**	**126,529,004**	**131,515,270**	**135,781,630**	**140,241,022**
Formula Grant & Council Tax Income							
	General Police Grant	(68,490,485)	(72,603,656)	(73,435,656)	(74,683,656)	(75,683,656)	(76,683,656)
	Council Tax Precepts	(46,621,536)	(49,095,124)	(50,855,070)	(52,981,135)	(54,951,901)	(56,937,585)
	Total Formula Grant & Council Tax Income	**(115,112,021)**	**(121,698,781)**	**(124,290,726)**	**(127,664,792)**	**(130,635,557)**	**(133,621,241)**
Net Deficit/Savings Requirement		**0**	**(0)**	**2,238,278**	**3,850,479**	**5,146,073**	**6,619,781**
Council Tax per Band D Property		£272.16	£282.15	£292.14	£302.13	£312.12	£322.11
Increase over previous year			£9.99	£9.99	£9.99	£9.99	£9.99
Percentage Increase			3.67%	3.54%	3.42%	3.31%	3.20%

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 2022/23.

Revenue Estimates 2022/23: That the Commissioner's net **Budget Requirement** of £121,698,781 be approved.

Council Tax Base 2022/23: That it is noted that the Council Tax base has been calculated at the amount of 173,964.24 for 2022/23. 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 2022/23 financial year:

Ref	2022/23 Amount £s	Description
(a)	£159,655,544	being the total of gross expenditure
(b)	£37,956,764	being the total of income from specific grants, fees and charges and transfers from reserves
(c)	£121,698,780	being the Budget Requirement for the year to be met from Council Tax and External Finance
(d)	£72,603,656	being the total the Commissioner estimates will be received from external financing, being the Police Grant
(e)	£11,114	being the net surplus/(deficit) on district collection funds
(f)	£49,084,010	being the council tax requirement (the budget requirement less the collection fund surplus and external finance)
(g)	£282.15	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	Precept 2022/23 Amount £.pp	Proportion
Band A	188.10	6/9 ths
Band B	219.45	7/9 ths
Band C	250.80	8/9 ths
Band D	**282.15**	**9/9 ths**
Band E	344.85	11/9 ths
Band F	407.55	13/9 ths
Band G	470.25	15/9 ths
Band H	564.30	18/9 ths

Billing Authority	Tax Base 2022/23	Precept (Band D) £	Amount Payable £
Allerdale Borough	31,031.82	282.15	8,755,628
Barrow Borough	19,899.25	282.15	5,614,573
Carlisle City	35,164.84	282.15	9,921,760
Copeland Borough	20,850.75	282.15	5,883,039
Eden District	20,832.41	282.15	5,877,864
South Lakeland District	46,185.17	282.15	13,031,146
Total	173,964.24	282.15	49,084,010

Cumbria Office of the Police and Crime Commissioner

Reserves Strategy 2022/23

Public Accountability Conference 16 February 2022

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 5 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 recent years, 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 MTFF 5 year timeframe plus a further year, 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 2032. **Appendix B** summarises this information graphically.

1.5 The medium term financial forecast shows a budget deficit of £2.3m in 2023/24 rising to £6.6m by 2026/27. A productivity and efficiency plan is being progressed to address the deficit. In the event that this is not achieved, reserves will be required to bridge the gap and will result in the level of reserves depleting more quickly than indicated in this strategy.

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 £3.6m in 2022/23. 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 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. This section includes the addition of a reserve to provide support for reduced council tax precept income as a result of a reduction in the tax base, due principally to increased local council tax support for low income households and increases in collection fund deficits. The reserve was established from Government grants received in 2020/21 and 2021/22 and is likely to be utilised in succeeding years to meet council tax deficits arising from the financial effect of the pandemic.

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

16 February 2022

Appendix A

Planned Movement in Reserves 2022/23 to 2031/32

				MTFF																			
Reserves Forecast	Actual Balance 31/03/21 £000's	Planned Gain/(Use) 2021/22 £000's	Forecast Balance 01/04/22 £000's	Planned Gain/(Use) 2022/23 £000's	Forecast Balance 01/04/23 £000's	Planned Gain/(Use) 2023/24 £000's	Forecast Balance 01/04/24 £000's	Planned Gain/(Use) 2024/25 £000's	Forecast Balance 01/04/25 £000's	Planned Gain/(Use) 2025/26 £000's	Forecast Balance 01/04/26 £000's	Planned Gain/(Use) 2026/27 £000's	Forecast Balance 01/04/27 £000's	Planned Gain/(Use) 2027/28 £000's	Forecast Balance 01/04/28 £000's	Planned Gain/(Use) 2028/29 £000's	Forecast Balance 01/04/29 £000's	Planned Gain/(Use) 2029/30 £000's	Forecast Balance 01/04/30 £000's	Planned Gain/(Use) 2030/31 £000's	Forecast Balance 01/04/31 £000's	Planned Gain/(Use) 2031/32 £000's	Forecast Balance 31/03/32 £000's
General Reserve/Police Fund	3,600	0	3,600	0	3,600	0	3,600	0	3,600	0	3,600	0	3,600	0	3,600	0	3,600	0	3,600	0	3,600	0	3,600
Total General Reserve/Police Fund	**3,600**	**0**	**3,600**	**0**	**3,600**	0	3,600	**0**	**3,600**	**0**	**3,600**	**0**	**3,600**	**0**	**3,600**	**0**	**3,600**	**0**	**3,600**	**0**	**3,600**	**0**	**3,600**
Earmarked Capital Reserves																							
Capital Reserves																							
West Cumbria Estate	4,000	(20)	3,980	(600)	3,380	(3,380)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
HQ Adaptions	294	0	294	0	294	0	294	0	294	0	294	0	294	0	294	0	294	0	294	0	294	0	294
Total Capital Reserves	**4,294**	**(20)**	**4,274**	**(600)**	**3,674**	(3,380)	294	**0**	**294**	**0**	**294**	**0**	**294**	**0**	**294**	**0**	**294**	**0**	**294**	**0**	**294**	**0**	**294**
Budget Stabilisation / Insurance Reserves																							
Constabulary 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
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
Insurance Reserve	1,278	46	1,324	46	1,369	46	1,415	46	1,461	46	1,507	46	1,553	46	1,599	46	1,645	46	1,691	46	1,736	46	1,691
75% Tax Income Guarantee Scheme	383	484	867	(235)	632	(170)	462	0	462	0	462	0	462	0	462	0	462	0	462	0	462	0	462
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
Total Budget Stabilisation / Insurance Re	**2,660**	**530**	**3,190**	**(189)**	**3,001**	(124)	2,877	**46**	**2,923**	**46**	**2,969**	**46**	**3,015**	**46**	**3,060**	**46**	**3,106**	**46**	**3,152**	**46**	**3,198**	**46**	**3,152**
Budget Support Reserves																							
Budget Support Reserve	6,360	(3)	6,356	(841)	5,515	(1,000)	4,515	(1,000)	3,515	0	3,515	0	3,515	0	3,515	0	3,515	0	3,515	0	3,515	0	3,515
Total Budget Support Reserves	**6,360**	**(3)**	**6,356**	**(841)**	**5,515**	(1,000)	4,515	**(1,000)**	**3,515**	**0**	**3,515**	**0**	**3,515**	**0**	**3,515**	**0**	**3,515**	**0**	**3,515**	**0**	**3,515**	**0**	**3,515**
Short-term Project Reserves																							
PFI Lifecycle Reserves	265	0	265	0	265	0	265	0	265	0	265	0	265	0	265	0	265	0	265	0	265	0	265
Body Armour (Future Roll Out)	287	50	337	50	387	0	387	0	387	0	387	0	387	0	387	0	387	0	387	0	387	0	387
Cumbria Road Safety Initiatives	25	(0)	25	(0)	24	(0)	24	(0)	24	(0)	24	0	24	0	24	0	24	0	24	0	24	0	24
Red Sigma (Durham Collaboration)	108	(108)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Business Intelligence	28	0	28	0	28	0	28	0	28	0	28	0	28	0	28	0	28	0	28	0	28	0	28
HQ Security	180	0	180	0	180	0	180	0	180	0	180	0	180	0	180	0	180	0	180	0	180	0	180
Business Transformation	519	(519)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Covid 19 Recovery	694	0	694	0	694	0	694	0	694	0	694	0	694	0	694	0	694	0	694	0	694	0	694
CO - Demand Risk Resourcing	50	50	100	0	100	0	100	0	100	0	100	0	100	0	100	0	100	0	100	0	100	0	100
PCC - Commissioned Services	2,482	463	2,945	(105)	2,840	0	2,840	0	2,840	0	2,840	0	2,840	0	2,840	0	2,840	0	2,840	0	2,840	0	2,840
Total Short-term Project Reserves	**4,639**	**(64)**	**4,575**	**(55)**	**4,519**	(0)	4,519	**(0)**	**4,519**	**(0)**	**4,519**	**0**	**4,519**	**0**	**4,519**	**0**	**4,519**	**0**	**4,519**	**0**	**4,519**	**0**	**4,519**
Total Earmarked Revenue Reserves	**13,659**	**463**	**14,121**	**(1,086)**	**13,036**	(1,124)	11,911	**(954)**	**10,957**	**46**	**11,002**	**46**	**11,048**	**46**	**11,094**	**46**	**11,140**	**46**	**11,186**	**46**	**11,232**	**46**	**11,186**
Total Reserves	**21,553**	**443**	**21,995**	**(1,686)**	**20,310**	**(4,504)**	**15,805**	**(954)**	**14,851**	**46**	**14,896**	**46**	**14,942**	**46**	**14,988**	**46**	**15,034**	**46**	**15,080**	**46**	**15,126**	**46**	**15,080**

Overall reserves are forecast to fall to just £14.9m over the life of the MTFF, this represents a fall of 31% compared to their current level of £21.6m

Appendix B

Planned Movement in Reserves 2022/23 to 2031/32