Office of the Police & Crime Commissioner
Budget Consultation 2017/18

Summary

1. The Police and Crime Commissioner (PCC) has a statutory duty to consult Norfolk people on his proposals ahead of setting the policing budget and, with it, how much they will contribute through council tax.

2. The Panel received a report at its November meeting outlining the method and timescales for the 2017/18 police budget consultation.

3. As per that report the budget consultation was launched on 10 November 2016.

4. This report provides members with an update on the consultation, including its results.

1. Background

1.1 Ahead of setting the annual policing budget, the Police and Crime Commissioner (PCC) has a statutory duty to consult Norfolk people on his proposals, including whether the amount they contribute to funding their policing service through council tax should be increased.

1.2 The PCC launched the consultation for the 2017/18 police budget on 10 November at a public meeting in Great Yarmouth. The consultation was originally scheduled for four weeks but, having launched the consultation slightly earlier than in previous years, the PCC took the option to extend the deadline for public feedback by a further week, closing it on 16 December 2016.

2. Approach to consultation

2.1 There is a duty on the PCC to consult with members of the public, including victims of crime and business rates payers, ahead of setting the policing budget and council tax precept. Consultation can be undertaken in whatever format the PCC considers appropriate.

2.2 The two options upon which the PCC consulted this year were a policing precept freeze at last year’s levels or a 2% increase equating to an extra 8 pence per week or £4.23 per year for a household in a Band D property. The consultation consisted of a survey, a number of engagement events and an intensive communications and awareness raising programme.

2.3 The consultation was widely promoted through the media, local, parish and community publications, PCC and partner websites and social media channels.

2.4 Norfolk's parish, town, district and county councillors were contacted, as well as our MPs, and asked to raise awareness of the consultation within their local areas. The PCC also addressed the Norfolk Association of Local Councils' AGM and attended town council meetings in Aylsham and Sheringham.

2.5 Partners working in the policing, community safety, criminal justice victim support and rehabilitation arenas were provided with details of the consultation and their assistance requested in encouraging people to take part. Norfolk Constabulary's district-based Community Engagement Officers helped promote the consultation in their policing areas, and the PCC joined policing surgeries and community priority setting meetings to explore public opinion.

2.6 The consultation was promoted to local businesses through the Norfolk Chamber of Commerce website and *Norfolk Voice* magazine, as well as via contact with the Federation of Small Businesses to ensure their members were aware and had the opportunity to respond.

2.7 Among others, the PCC and OPCCN utilised the following channels to raise awareness of the consultation and encourage participation:

- Eastern Daily Press interview and coverage (launch, extension and final push)
- Mustard TV interview and discussion programme
- PCC's regular Great Yarmouth Mercury column
- Lynn News coverage (launch, extension and final push)
- BBC Radio Norfolk interview and discussion topic
- BBC Look East interview and coverage
- Public meeting in Great Yarmouth
- PCC engagement activity across the districts, including police drop-in/surgeries in Mulbarton and King's Lynn, and engagement with public and market stall holders in Norwich
- PCC attendance at Norfolk Association of Local Councils' AGM, and circulation of consultation details to all parish councils
- PCC attendance at town council meetings in Aylsham and Sheringham
- OPCCN and Norfolk Constabulary websites
- Norfolk Constabulary Intranet
- Police Connect external messaging service
- Safer Neighbourhood Action Panel meetings in Wells, Holt, Attleborough, North Walsham and Thorpe St Andrew
- Survey information in libraries
- OPCCN monthly newsletter and OPCCN e-mail signatures
- Partner newsletters, websites and social media
- Local, parish and community publications, including B-Me Voices magazine
- Volunteers (custody visitors, independent advisory group)
- Social media
- Elected members

- Norfolk Chamber of Commerce magazine and website, and Federation of Small Businesses
- Norfolk County Council 'Your Voice' consultation platform, and 'Your Norfolk' magazine.

2.8 As with previous consultations carried out by the OPCCN, the results indicate that the online survey was the favoured response method among participants. Close to 2,000 people choose to have their say in that way.

2.9 The OPCCN is, however, committed to ensuring that people without internet access or who would prefer to give their views in another way do not face barriers to doing so. As well as directing people to the website or encouraging people to come along to one of the public events, communications for the consultation also invited people to have their say by writing to the PCC, sending an email to the dedicated consultation inbox at TellLorne@norfolk.pnn.police.uk or telephoning the OPCCN on 01953 424455. Hard copies of the consultation information pack and survey were also sent out on request, provided to attendees at community policing meetings during the consultation period, and available via libraries.

3. Results of the public consultation

3.1 2,212 people took the 2017/18 police budget and council tax survey, either online or in hard copy.

3.2 For other forms of contact (where the survey was not completed), if a clear preference for either a freeze or increase was expressed, this information has been included in the figures at 3.9 below.

3.3 The OPCCN received 22 responses to the consultation via email to the dedicated consultation inbox, 15 of which explicitly supported either an increase or freeze.

3.4 Two letters were received – one showing a preference for a freeze, the other expressing concern about diminishing policing resources but not stating a position on a freeze/increase.

3.5 The office also took a number of consultation-related phone calls from members of the public. The majority of people telephoning the OPCCN were happy to be directed to the website to complete the online survey, to email their views or to have a hard copy survey sent to them to complete. Two people chose to give their views over the telephone, although only one gave a preference for either a precept freeze or increase.

3.6 A number of people commented on the consultation via Twitter or Facebook; 16 such comments stated support for either a freeze or increase.

3.7 All comments received to the consultation by whatever means of communication were provided to the PCC to help inform his 2017/18 policing budget decisions.

3.8 Recurring themes/messages within the comments included:

- A willingness to pay more as long as the funds raised are used to facilitate more visible and neighbourhood level policing, including an improved police presence in more rural areas
- An unwillingness to pay more, because of financial difficulty and not being able to afford to contribute more, or due to the perception that a precept increase will not tackle the issues affecting them
- Concern about dangerous driving and a perceived lack of police activity and resource to tackle the issue
- Support for PCSOs and what they offer in policing visibility and engagement
- Calls for more efficiency savings, better use of resources, collaboration/merger across counties, regions and emergency services, and changes to management structures, police pay and pensions
- Offers to contribute more than 2%, alongside calls for the PCC and Chief Constable to lobby the Government for more freedom to raise the precept to a higher level, as well as lobbying for more funding.

3.9

Responses to 2017/18 police budget consultation				
	Total	**# answering survey question**	**For 0%**	**For 2%**
Survey (online/ hard copy)	2,212	2,212	525	1,687
Email	22	15	3	12
Letter	2	1	1	0
Telephone	2	1	0	1
Social media comments	38	16	11	5
Total	**2,276**	**2,245**	**540**	**1,705**
%			**24%**	**76%**

3.10 In the interests of being open and transparent, alongside this report, a breakdown of consultation responses will be published on the Norfolk PCC website as well as a complete list of comments received. As part of the OPCCN's analysis of responses, any identifying information within comments (such as names, email addresses etc.), as well as any abusive language or anything which could be potentially libellous will have been removed.

4. Conclusion

4.1 The results of the police budget 2017/18 consultation show that 76% of those who took part said they would be prepared to pay an extra 2% through the policing element of their council tax.

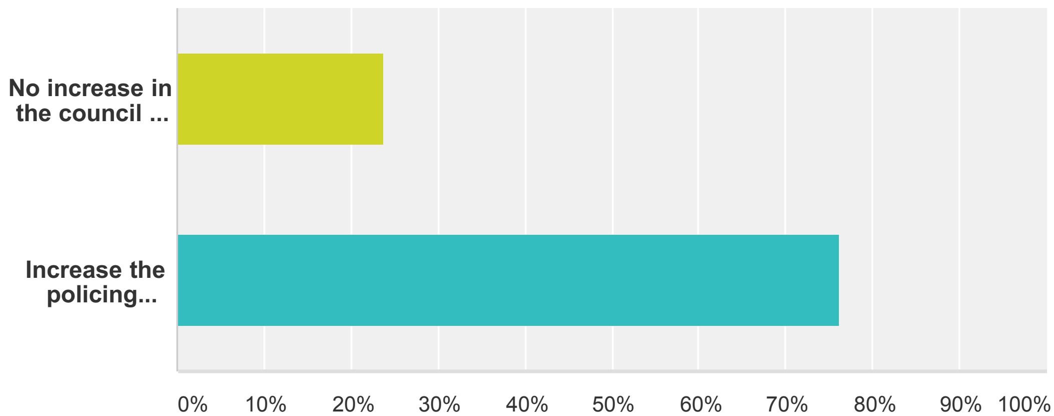
4.2 Panel members are asked to note the results of the public consultation.

5. Appendices

A Overview of survey results
B Breakdown of survey responses by district
C Example survey responses (full list of all comments published on Norfolk PCC website; copy in Norfolk County Council members' room for Panel's information).

Q1 Please select your preferred option below (please choose only one):

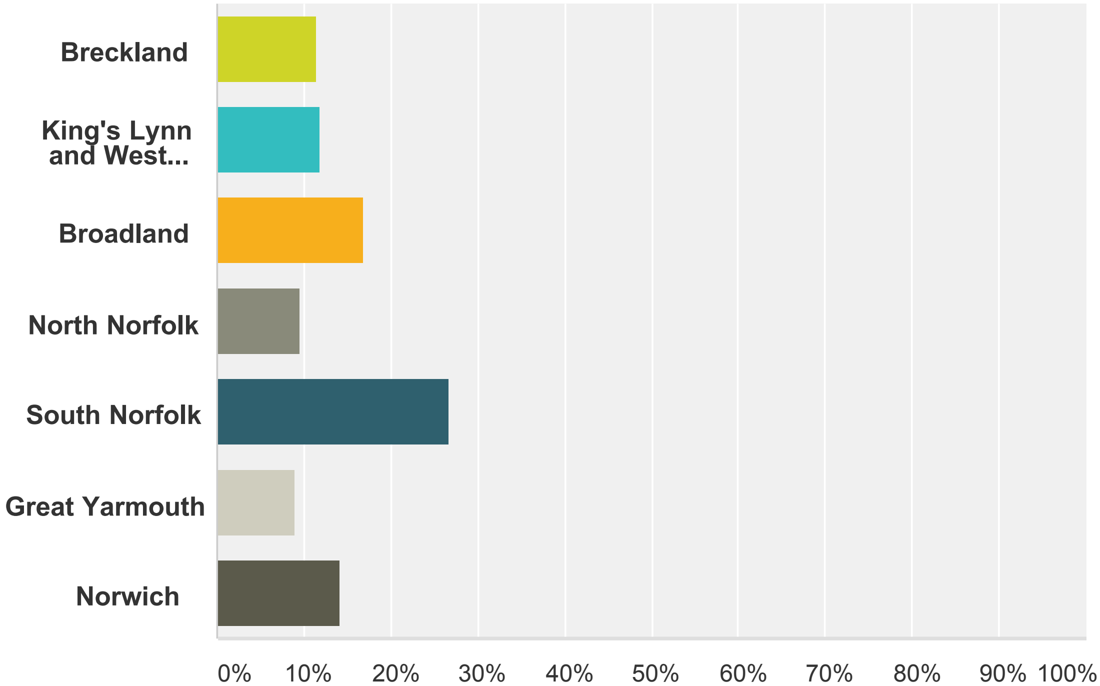
Answered: 2,212 Skipped: 0



Answer Choices	Responses
No increase in the council tax preceptUnder this option, it will not be possible to reinstate any of the previous reductions in neighbourhood policing, or improve the service for the future; in fact, more reductions would be required. It would not be possible to improve visibility and engagement. We have to work hard to deal with crimes affecting the most vulnerable and we need sufficient resilience to deal with the increase in demand in these areas of policing. This means that further officer reductions could only be found from our neighbourhood capability - savings equivalent to 30 police officer posts would still be required. High-impact crime would be dealt with and 999 calls responded to, but the service would inevitably become more reactive.	**23.73%** 525
Increase the policing element of council tax by 2% (equating to 8p per week or £4.23 extra per year for a household in a Band D property)This option should enable changes to the local policing model, with improvements in visibility and engagement, working locally to deal with priority neighbourhood problems, improvements in road policing (of benefit to rural and urban communities) and an increase in detective and investigation resources to deliver specialist services to victims of more harmful crimes.	**76.27%** 1,687
Total	**2,212**

Q3 Please select the district you live in:

Answered: 2,212 Skipped: 0



Answer Choices	Responses	
Breckland	**11.53%**	255
King's Lynn and West Norfolk	**11.84%**	262
Broadland	**17.00%**	376
North Norfolk	**9.63%**	213
South Norfolk	**26.72%**	591
Great Yarmouth	**9.04%**	200
Norwich	**14.24%**	315
Total		**2,212**

Increase	We would be happy to pay an additional sum on our council tax providing that the amount raised would be specifically used to provide additional community support officers, We have found the local community support officers extremely effective in our local area over the past years, however, they now seem to be extremely stretched providing cover for our area which we have missed.
No increase	No no no we pay enough already. We think you could organise the budget by creating additional savings by reducing some of the expenditure that is not necessary. 8p per week does not sound very much but it is these frequent small increases which mount up.
Increase	We need to pay for the level of services we want, be they in policing, health and care, libraries or other social services.
Increase	I think the police do a fantastic job and that a small increase in council tax would be a sensible thing to do to maintain or increase their capability to maintain order.
No increase	No increase in precept doesn’t necessarily mean a reduction in frontline officers. What about more efficient ways of working and greater collaboration at management levels?
Increase	I will be willing to pay up to 50p a week providing a sufficient amount of this is spent on the North Norfolk area where we seldom see a police presence, especially regarding traffic control and speed control.
No increase	Why if Norfolk and Suffolk are collaborated are there two chief constables and two management teams. Trim this first then it would be more acceptable to ask for more money.
Increase	I would be keen to see this increased funding invested into response officers who are extremely under resourced.
No increase	Would far rather the money spent on a police commissioner be spent on frontline policing.
Increase	The difficulty is I can afford the increase in tax but there will be many families that are unable to so the survey needs to be completed by a wide range of people.
Increase	Happy for the increase, but we should look at the criminal pays – thus increasing penalties and fines on those who are guilty of crime, to fund the extra policing required to maintain the law.
Increase	This depends on your assurance that the maximum use of budget reserves is included in your calculations to bridge the budget gap. Visible policing in neighbourhoods is a high priority for older and vulnerable people, to enable them to feel safe to go out and maintain their independence in everyday matters. These comments represent the views of Norwich Older People’s Forum Working Group.
No increase	There should be no increase in financial demand on the public until the force gets its own financial house in order with the compensation culture, gold plated pension and early retirement packages to name but a few of the ‘perks of the job’ today’s police enjoy which have long been removed from the ‘real world’ public sector.
Increase	Whilst I find it unacceptable that we have a government that is failing to deliver yet another statutory provision I accept it’s a small price to pay for public safety. I do however feel that additional resources should be used to tackle

	neighbourhood level crime via community policing with officers working on issues set by residents rather than being soaked up in existing policing resource.
Increase	As a Conservative, perhaps Lorne might lobby for a change in legislation to allow the option of an above 2% increase to the precept without the need for a local referendum? It seems the cost to public services of having to do this would significantly reduce the increased revenue.
Increase	Businesses that create heavy demands on police activity, e.g. night clubs, concert events, sports events, should contribute to the costs.
No increase	Every time you ring in you are always put on hold, the police station in Lynn might as well not be there as it's only part time so you want more money for less service? No way.
Increase	I would find it acceptable for a 2% increase in the policing budget but I would prefer that the increase should be invested in community policing and would be very disappointed to see that the funds would be wasted on policing areas such as Prince of Wales Road as an example. I believe that businesses which make profits from members of our society who cause anti-social behaviour should actually fund the necessary policing from that profit. It is totally unacceptable that various areas of Norfolk are left with minimum policing to enable this street to be policed.
Increase	Hopefully there will be a 2% increase and if so, please can you ensure that you communicate what the 2% increase has successfully bought – maybe around this time next year. A kind of you said – we did approach.
No increase	I find it hard to pay the bills already, with the council tax being the biggest expense. It might not seem much of an increase but for families like mine it's extra money to fund.
No increase	I simply do not believe that an increase in funding would result in a better service, it would not open police stations again, and we would not see any more community officers. The police service has greatly diminished its own reputation in recent years and needs to do a lot of work to make amends, too many senior officers that I see interviewed on TV seem complacent and self-satisfied. If more funding is needed, cut out police and crime commissioners, reduce the top brass and reduce the pay of those who are left. Like the NHS it is top-heavy service that needs thorough reorganisation and better efficiency.
Increase	I shall be happy provided I can see tangible evidence of an improvement in the service, I would equally be happy to pay extra for our schools and hospitals.
No increase	I would prefer an increase in either the education budget or social service budget to help prevent people becoming criminal in the first place. Our fear of crime is different to the facts of crime. You do a great job though and maybe the community needs to do more, to be a little more self-reliant and not depend on phoning the police for minor incidences.
Increase	There should be some guarantee that any additional income raised as a result of increasing the precept will be ring fenced for frontline policing.
No increase	Plan based on false assumptions – visible policing is not what is needed, public perception does not make putting additional resources into it justified; resources need to be targeted where they are needed – types of crimes committed have changed so should the policing.
Increase	The police should be fully funded by government, having said that everything goes up so I must regrettably support this increase. I trust that our local police stations will remain open to the public and not more of doing everything online. A lot of people do not own a computer or have internet access which appears to be taken for granted these days.

Increase	In order to preserve our police force for the long term and especially our local police community support officer who play a very important part in our communities resolving local issues and who listen to us and help us, who also take over from our police officers to keep them free to deal with more dangerous issues and incidents in our county keeping us safe from harm.
Increase	It is totally unacceptable to request the increase yet fail to give an assurance that the additional sum raised will be ringfenced to ensure the aims are met. Also I note that there is no specific quantifiable measures stated by which the monies spent could be assessed. The failure of the PCC and CC to provide this renders this exercise futile and I find it therefore brings into question the funding of the PCC role and the individual CC position as much as the questions being asked.
No increase	The public pay enough already for a very stretched service with less officers policing the streets – resources need to be redirected to frontline. Specialised departments are getting bigger to the detriment of frontline policing.
Increase	On the proviso that it is spent on increasing resources for additional localised rural police presence (not PCSOs – proper police officers!) and increase in advances traffic department car and motorcycle patrols to combat unacceptable rise in bad driving.
Increase	It's ridiculous to imagine we can keep cutting service and expect the same or more from them.
No increase	Better management of the money they get and only concentrating on essential services. Too many police needed on Prince of Wales Road at the weekend and how can three or four police cars turn up at any situation serious or otherwise to direct traffic or hang around. Need to manage it as though a private company with accountability to people. Individual police men and women really good but it is bad management.
No increase	PCCs past and present used the bias survey year after year but the fact is that they want people like me on a very limited income to keep shelling out more and more. Trim the fact – don't raise my tax. If 8p is such a small amount you can do without it – for me, that's my kids' school uniform.
No increase	I am a serving police officer. The organisation cannot be trusted to allocate resources effectively and efficiently, and in fact continues to waste resources. Continuing to persevere with 'virtual courts' is a case in point where the Constabulary wastes money, with no tangible benefit to the organisation or to the public. Similarly, millions have been wasted on introducing the disastrous Athena system. Perhaps the PC should be honest with the public about these shambolic episodes before asking for yet more money?

OFFICE OF THE POLICE & CRIME COMMISSIONER FOR NORFOLK

REPORT TO THE NORFOLK POLICE AND CRIME PANEL
2 FEBRUARY 2017

PROPOSED PRECEPT FOR 2017/18

Executive Summary

This report outlines the budget and financial outlook for the two precept options on which the Police and Crime Commissioner (PCC) has publicly consulted:-

1. to freeze the council tax, or
2. to increase it by 2%
   (NB the maximum permitted without triggering a referendum is 1.99%).

It sets out, the 2017/18 Revenue Budget and Capital Programme and the Medium Term Financial Plan (MTFP) 2017/18 to 2020/21.

A high level summary of the two options is set out in the tables below.

Option 1 – Council Tax Freeze

	Budget 2017/18 £000	**Forecast 2018/19** £000	**Forecast 2019/20** £000	**Forecast 2020/21** £000
Total Funding (Grant + Precept)	(148,458)	(147,389)	(147,542)	(147,717)
Net Revenue Budget before changes and savings	151,964	154,361	156,735	158,964
DEFICIT / (SURPLUS) BEFORE KNOWN CHANGES	**3,506**	**6,972**	**9,192**	**11,247**
Known / Expected Changes	9,594	4,918	5,802	3,675
Planned use of reserves	(8,104)	(3,130)	(2,559)	(210)
REVENUE DEFICIT BEFORE SAVINGS	**4,995**	**8,760**	**12,436**	**14,712**
Savings	(3,794)	(5,254)	(6,200)	(6,566)
Savings to be identified	(1,201)	(3,506)	(6,236)	(8,146)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

This option:
- Will see Earmarked Reserves reduce by £14m from an estimated £20m as at 31 March 2017 to an estimated £6m as at 31 March 2021.
- Requires a further £8.1m of savings to be found by 2020/21 (on top of the £6.6m identified).

Over…

Option 2 – 1.99% Council Tax Increase

	Budget 2017/18	Forecast 2018/19	Forecast 2019/20	Forecast 2020/21
	£000	£000	£000	£000
Total Funding (Grant + Precept)	(149,659)	(149,853)	(151,333)	(152,901)
Net Revenue Budget before changes and savings	151,964	154,361	156,735	158,964
DEFICIT / (SURPLUS) BEFORE KNOWN CHANGES	**2,305**	**4,508**	**5,402**	**6,063**
Known / Expected Changes	9,594	4,918	5,802	3,675
Planned use of reserves	(8,104)	(3,130)	(2,559)	(210)
REVENUE DEFICIT BEFORE SAVINGS	**3,794**	**6,296**	**8,645**	**9,529**
Savings	(3,794)	(5,254)	(6,200)	(6,566)
Savings to be identified	0	(1,042)	(2,445)	(2,962)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

This option will also see Earmarked Reserves reduce by £14m from £20m as at 31 March 2017 to an estimated £6m as at 31 March 2021.

A further £3m of savings will be required by 2020/21 (on top of the £6.6m identified).

The report also contains other statutory information. The appendices also provide more detailed information.

Appendix A	Police Grant 2017/18
Appendix B (i)	Budget and Medium Term Financial Plan 2017/21
Appendix B (ii)	Analysis of Known/Expected Changes
Appendix B (iii)	Analysis of Savings
Appendix C	High Level Analysis of the Net Budget 2017/18 to 2020/21
Appendix D	Proposed Capital Programme 2017/18 to 2020/21
Appendix E	Forecast movement in general and earmarked reserves 2016/17 to 2020/21
Appendix F	Prudential Code Indicators 2017/18, 2018/19, 2019/20
Appendix G	Annual Investment and Treasury Management Strategy 2017/18
Appendix H	Minimum Revenue Provision Statement 2017/18
Appendix I	Precept (freeze) 2017/18
Appendix J	Precept (+1.99%) 2017/18

Recommendation

It is recommended that the Police and Crime Panel:

a) Notes the Revenue Budget and Capital Programme for 2017/18, the Medium Term Financial Plan 2017/18 to 2020/21 and the funding and financial strategies.

b) Considers the two precept options for 2017/18 on which the Commissioner has consulted.

c) Endorses the Police and Crime Commissioner's proposed precept for 2017/18, which the Panel will be notified of by 1 February 2017.

1. Background

1.1 The decision on the level of the precept/council tax, the Revenue Budget and Capital Programme needs to be seen in the context of the funding envelope (the total of the precept and government grant), the pressures on the policing service (the changing nature of demand and price/pay increases), the PCC's priorities as set out in the draft Police and Crime Plan and the impact of the budget reductions necessary to balance the budget.

1.2 The decision must also be seen, not as a one-off decision in relation to next year, but as part of a strategy in relation to the changing demands on policing over the medium to long-term. The precept options and budget proposals within this report are made within the context of a four year strategic and financial planning cycle. The figures contained within the strategy are based upon current information and the stated assumptions.

1.3 The Constabulary continues to face significant service pressures due to the changing nature of crime. Whilst Norfolk remains a very safe county the Constabulary is dealing with continuing increases in reports of domestic abuse, rape and serious sexual offences, adult and child abuse and allegations of cyber enabled fraud. These are some of the most complex and demanding investigations the service has to undertake and they require a highly skilled work Force. As a result Norfolk Constabulary is facing some significant cost pressures which the Chief Constable believes have to be met if the threat is to be managed.

1.4 The PCC took up office in May 2016 and has been clear about his wish, for example, to improve the visibility of the police, equip officers with '21st century' technology and ensure that the Constabulary is finding savings through greater efficiency in order to offset some of the cost pressures.

1.5 Following a full consultation with the public, partners and local businesses the PCC's Police and Crime Plan has been drafted and includes seven strategic aims:

- Increase visible policing
- Support rural communities
- Improve road safety
- Prevent offending and rehabilitate offenders
- Support victims and reduce vulnerability
- Deliver a modern and innovative service
- Good stewardship of PCC finances.

1.6 The Commissioner has had iterative discussions on the budget proposals with the Chief Constable. He has also considered views from the community, key stakeholders and public sector bodies. The results of the PCC's budget consultation are included in a report elsewhere on the agenda.

1.7 In accordance with the requirements of the Police and Crime Panel (Precepts and Chief Constable Appointments) Regulations 2012, a precept is proposed for 2017/18.

2. Funding

Overview

2.1 The PCC's Medium Term Financial Plan (MTFP) remains consistent. It provides for pay and price increases, growth to meet demand and service pressures, annual inflationary increases, a significant change programme to make the required cost reductions, and use of reserves to support one off costs, including invest to save measures and the continued investment in modernising and improving technology.

2.2 As set out below, significant savings are still required, as cuts to Home Office grant, rising inflation, rising demand and the changing face of crime create ongoing pressure on budgets.

Provisional Grant Settlement

2.3 The provisional grant settlement announcement was made on 15 December 2016. The proposals in this report are based on the provisional settlement, latest local tax base figures and planning assumptions regarding future funding levels, on-going commitments and capital expenditure plans.

2.4 In the provisional Police Grant Report, the Minister of State for Policing and the Fire Service stated "*direct resource [revenue] funding for each PCC, including precept, will be protected at flat cash levels compared to 2015/16, assuming that precept income is increased to the maximum amount available in both 2016/17 and 2017/18.*"

2.5 The main policing grants have reduced by £1.1m (1.4%). The Settlement is not expected to be confirmed until early February 2017 but is unlikely to change. Further details are in the table below and in Appendix A.

	2016/17	2017/18	Reduction	
	£000	£000	£000	%
Police Main Grant	78,993	77,888	1,105	1.40%
Legacy Council Tax Grants	9,305	9,305	0	0.00%
Total all Grants	**88,298**	**87,193**	**1,105**	**1.25%**

Grant damping and the Police Funding Formula

2.6 The Home Office is currently engaging with the police sector on changes to the police funding formula, with a report due to go to the Policing Minister in February/March 2017 for a decision on next steps. If a new formula (and transitional arrangements) is agreed, following consultation, it is expected to come into effect for 2018/19. The PCC has contributed to submissions to the Minister from Eastern Region PCCs and from the National Rural Crime Network outlining some of the significant policing issues for this very rural county.

2.7 There were no changes to grant damping for 2017/18 funding and all PCCs core Home Office grant funding has been subject to the same cash reduction of 1.4% in comparison with 2016/17.

2.8 This does mean, however, that there is only funding certainty for one year, as the new formula, even with transitional arrangements, could have significant implications for funding locally. Therefore a prudent and flexible approach to financial planning needs to continue.

Council Tax Income

2.9 District Councils calculate the number of dwellings on which council tax can be levied and estimate the collection rate. Variations between actual and estimated income accrue in the District Council collection funds. A surplus or deficit on the collection fund is allocated between the District Council, the County Council and the PCC in proportion to their share of the Band D council tax. In recent years there has tended to be an overall surplus on the collection fund. Districts have estimated the 2016/17 surplus attributable to the PCC will be £807k receivable in 2017/18.

2.10 The Council Tax base figures which have been provided by the District Councils are provisional, but reasonably certain, at this stage. The final figures, which are then notified to the Government, will not be available until the end of January 2017.

2.11 Around 75% of properties in Norfolk are in Bands A to C, i.e. below Band D.

3. Budget and Precept 2017/18 and MTFP

Financial Planning Assumptions

3.1 The following financial planning assumptions have been used.

	Budget 2017/18	**Forecast 2018/19**	**Forecast 2019/20**	**Forecast 2020/21**
Police main grant change	-1.4%	-1.5%	-1%	-1%
Legacy council tax grants change	0%	0%	0%	0%
Council tax base change	2.1%	1.5%	1.5%	1.5%
Collection fund surplus	£807k	£0k	£0k	£0k
Pay awards - officers	1%	1%	1%	1%
Pay awards - staff	1%	1%	1%	1%
Non-pay inflation (average)	2.5%	2.5%	2.5%	2%

3.2 It should be noted that inflationary pressures could change over the period of the medium-term and the impact of these changes can be seen in the sensitivity analysis overleaf.

3.3 The following table identifies potential changes to income/costs if the planning assumptions are changed.

	Variation	Variation
		£m
Main Government grants	1.0%	0.8
Legacy council tax grants	1.0%	0.1
Tax base increase	1.0%	0.6
Precept	1.0%	0.6
Pay awards officers (full year impact)	1.0%	0.8
Pay awards staff (full year impact)	1.0%	0.4
Non-pay inflation	1.0%	0.8

The Budget and Medium Term Financial Plan (Summary).

3.4 The Tables below summarise the budget and forecasts for the two Options. Full details are in Appendices B(i), B(ii) and B(iii).

Option 1 – Council Tax Freeze

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	£000	£000	£000	£000
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REVENUE DEFICIT BEFORE SAVINGS	**4,995**	**8,760**	**12,436**	**14,712**
Savings	(3,794)	(5,254)	(6,200)	(6,566)
Savings to be identified	(1,201)	(3,506)	(6,236)	(8,146)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

Option 2 – 1.99% Council Tax Increase

	Budget	Forecast	Forecast	Forecast
	2017/18	**2018/19**	**2019/20**	**2020/21**
	£000	£000	£000	£000
Total Funding (Grant + Precept)	(149,659)	(149,853)	(151,333)	(152,901)
Net Revenue Budget before changes and savings	151,964	154,361	156,735	158,964
DEFICIT / (SURPLUS) BEFORE KNOWN CHANGES	**2,305**	**4,508**	**5,402**	**6,063**
Known / Expected Changes	9,594	4,918	5,802	3,675
Planned use of reserves	(8,104)	(3,130)	(2,559)	(210)
REVENUE DEFICIT BEFORE SAVINGS	**3,794**	**6,296**	**8,645**	**9,529**
Savings	(3,794)	(5,254)	(6,200)	(6,566)
Savings to be identified	0	(1,042)	(2,445)	(2,962)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

3.5 Appendix C shows a high level analysis of the Net Budget and Forecasts for both Options.

3.6 Details of the precept to be levied on the collection authorities are set out in Appendices I (Option 1) and J (Option2).

Service and Financial Planning Process

3.7 A joint (Norfolk and Suffolk) financial planning process has been on-going over recent months in accordance with an agreed timetable and an enhanced Service and Financial Planning process has been developed using Outcome Based Budgeting (OBB) principles, and a new OBB modelling tool.

3.8 OBB is a method for aligning budgets to demand, performance, outcomes and priorities. This approach analyses the activity spending of the entire Force, in terms of budgets, establishment, performance, demand and outcomes. This information is then lined up against the priorities and demands of the constabulary and PCC. This allows projects to be developed to target areas that can be made more efficient, and those areas requiring more investment.

3.9 This process identified not only possible savings and efficiencies but also additional cost pressures. The latter were higher than expected requiring more savings to be identified.

3.10 These outcomes were then reviewed by a Joint Chief Officer Panel against the OBB principles and decisions made about limiting growth and increasing savings. An initial view of the Change Programme (see below) was also developed.

3.11 These outputs were then presented to the Joint Chief Officer Team, and further refined after these sessions. Finally the outcomes of the process were presented to the PCC. The process concluded with agreement on Norfolk only budgets, the agreement of joint budgets, costs and savings arising from the process to be included in spending plans.

3.12 Alongside this activity the Norfolk 2020 Review of Local Policing has continued. Originally set up to develop proposals for swingeing reductions in the expectation of continued austerity, the Review has focussed on developing a local policing model fit for the future. See section 4 below.

Other Base Budget Pressures

3.13 As part of the spending review an additional taxation levy was announced by the Chancellor. The Apprenticeship levy, 0.5% of the pay bill, applies to all organisations with a pay bill over £3m. For Norfolk this is £0.5m (0.5% of £100m). The levy, payable monthly, will be applied from April 2017.

3.14 The Constabulary is to be included in the Register of Apprenticeship Training Providers (RoATP) and will be an employer-provider enabling funded delivery to our own staff (and therefore can draw down income from the Levy). Apprenticeship schemes in Policing are being developed by the College of Policing.

3.15 A prudent assumption of being able to draw down one quarter (£125k) of the contribution (£500k) in 2017/18 is included in the plans, and this will be kept under-review as the apprenticeship schemes are implemented.

3.16 All known/expected changes (budget pressures) are shown in Appendix B(ii).

4. Collaboration and the Change Programme

4.1 The Constabulary has run a well-established and effective Change Programme over recent years. The programme was developed to address the savings requirements arising from the spending reviews of 2010 and 2013 that covered the period up to 2015/16.

4.2 In total, by the end of 2016/17 over £30m of savings will have been achieved. Half of that has come through the Change Programme for the Norfolk and Suffolk collaboration.

The Change Programme

4.3 In the current year the Change Programme has centred on the Outcome Based Budgeting diagnostic, the Norfolk Local Policing (2020) Review and Regional Collaboration.

4.4 Given the levels of savings to be found it is clear that the Change Programme will need a fresh emphasis and, in particular, further opportunities with Suffolk will be looked at. Norfolk and Suffolk PCC's have re-established the Collaboration Panel and areas such as Shared Services are on the agenda.

4.5 It is clear that the Change Programme will need to become a continuous process, ensuring that savings can be driven out in a timely fashion to ensure budgets can be balanced.

Norfolk Local Policing and the 2020 Review

4.6 Norfolk 2020 was originally established to address two major aspects; the change in demands the organisation faces and the budget deficit. The scope is all areas within Local Policing, i.e. Neighbourhood Policing, Safeguarding and Investigations and Command and Control. The established project team has been working with the organisation to design Neighbourhood Policing for the future, the most efficient and effective deployment model identifying threat, risk and harm, and reorienting the organisation to the changing threats and demands.

4.7 The review is using knowledge gained from academic papers evidencing 'what works' in policing. Where this knowledge is unavailable, Norfolk 2020 has established and run pilots and mini projects to provide an evidence base. In addition the team is working with the jointly funded Better Policing Collaborative programme.

4.8 The demands on Norfolk Constabulary continue. This year has seen 355,000 calls for service, 450 operations, and a continuation in the shift in the types of crime committed.

4.9 Norfolk, as with most Forces, has seen major increases in serious sexual offences (42%)*, drugs supply offences (19%)* and serious violence (33%)*, this despite an overall decrease in crime. The skills and infrastructure required to investigate such crimes as child abuse, rape and on-line fraud is notably different and more complex. These investigations also take longer than those for typical volume crimes.
* increase in total crimes for the annual period ending June 2016 compared with the previous year.

4.10 To investigate the increases in these more harmful crimes, an additional £1m of detective resource is required and will be temporarily funded from reserves. Such growth is not sustainable without an equivalent reduction elsewhere and so detailed work has been ongoing to design a more efficient way of working.

4.11 For uniform policing, the challenge remains increasing visibility with reducing resources. The PCC's strategic aim, in line with the recent public consultation is to increase visibility. The challenge will be to provide more visible time from fewer resources, an aim to be achieved through the imminent arrival of mobile working, a new method of patrolling and a greater emphasis on proactive policing, tackling crime before it occurs.

4.12 This comprehensive review is focusing specifically on the Norfolk-only assets of local policing, safeguarding and investigations, and roads policing.

4.13 Through research, analysis, consultation and pilots, Norfolk 2020 is building an evidence base for an adapted policing model for Norfolk. Technology is being harnessed, processes challenged, whilst taking into account consultation with officers and staff, the public, partners and other stakeholder groups.

4.14 The outcome of the review will be a scalable policing model that will fundamentally change the way policing is delivered in the county; a model that takes account of the shift in crime types and the changes in the nature of calls for service, whilst also addressing the continuing financial pressures.

4.15 This budget includes, at a high level, the resources to address the identified issues and maximise the effectiveness of local policing. The PCC and Chief Constable will undertake to share more information with partners at a series of briefings in March.

Regional Collaboration

4.16 The PCCs and Chief Constables (CC) for the 6 police areas in the East of England together with the CC and PCC for Kent have confirmed their unanimous support for a 'Seven Force Strategic Collaboration Programme'. The costs of the work are being shared by the 7 Forces and some funding from the Police Innovation Fund has been secured. Many streams of work are being pursued and work is focussing on getting the 7 Forces to 'converge' their processes. This will enable efficiencies to be driven out and 7 Force contracts to be let (for identical products/services). In the longer term every function, with the exception of local policing, could be scoped for collaborative working. A regional Head of Strategic Procurement is current being recruited.

4.17 It has not been possible to include any 7 Force savings in this MTFP at this stage, but the work programme is fully resourced and expected to deliver in due course.

5. Capital Programme and Financing

5.1 The proposed outline capital programme has been updated to 2020/21. The revenue consequences of the proposed capital programme have been fully taken into account in preparing the MTFP.

5.2 Due to the continuing pace of modernisation, and ensuring that the Force is fit-for-purpose, appropriately equipped and has an appropriate estate footprint, there is an increased requirement for capital spending over the medium-term. This includes significant investment in refreshing the growing ICT / digital estate; increasing investment in infrastructure e.g. in networks and servers to deal with the growth in requirements for investigating and storing digital data; new enabling programmes such as Body Worn Video and the Emergency Services Network.

5.3 The growth of the investment in the “short life” capital assets will need to deliver efficiencies in staffing to avoid putting undue pressure on revenue reserves over the medium-term. This issue is expanded further in the review of adequacy of reserves later in this report (paragraphs 8.6 to 8.10).

5.4 The table below summarises the Capital Programme 2017/21 (full details in Appendix D).

	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000
Estates schemes	10,902	12,345	343	0
ICT (Norfolk only)	1,142	1,489	2,439	371
ICT (Norfolk share of joint)	3,698	1,462	1,080	899
Vehicles and Equipment	999	909	991	991
Total	**16,742**	**16,204**	**4,854**	**2,262**

Note: The 2017/18 total includes £5.086m estimated as requiring carry forward from 2016/17.

5.5 The Capital Programme for 2017/18 is arranged in 3 tables:-

Table A	Schemes or technical refresh programmes approved for immediate start in 2017/18.
Table B	Schemes requiring a business case or further report to the PCC(s) for approval.
Table C	Longer term, provisional schemes requiring further development.

5.6 Key aspects of the programme are outlined below:

- Capital costs for ICT include an improved programme of equipment replacement and updating of the technology infrastructure.
- New projects to help modernise the Force are set out in the capital programme including body worn video, and investment in additional ICT storage capabilities to cope with the increasing requirements from policing the modern web environment.
- Building schemes include the one-off costs incurred in relation to the disposal of estate infrastructure that is either too large or not fit for purpose, and

replacement with buildings that better meet operational needs and service requirements and cost less to maintain.
- Capital costs for fleet are for replacement vehicles and the equipment used to service them.

Capital Financing

5.7 The following financing sources have been identified for the outline capital programme.

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Grant	535	500	500	500
Capital Receipts	980	1,725	400	400
Revenue	250	250	250	250
Use of Reserves (see para 13.7)	4,165	1,385	3,461	1,112
Internal/External Borrowing	10,812	12,345	243	-
Total	**16,742**	**16,204**	**4,854**	**2,262**

5.8 Annually, PCCs receive a capital grant which must be used to support capital expenditure. The Home Office has given provisional figures for the capital grant for 2017/18 as being £535k. This is almost a 50% reduction from £1,043k in 2015/16.

5.9 The effect of the significant estates capital programme is that further external borrowing will be required in the medium term. Complex work is in hand to model the revenue impact. The timing of external borrowing is important because the cost of carrying ‘excess’ debt is very high.

Minimum Revenue Provision (MRP)

5.10 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 place a duty on authorities (including PCCs) to make an amount of Minimum Revenue Provision (MRP) each year that is considered to be prudent. The regulations are supported by statutory guidance to which authorities are required to have regard.

5.11 MRP is only used where funding of the asset does not use revenue contributions, capital grants or receipts from asset sales. MRP is charged annually against the Revenue Account reflecting the cost of the asset over its life, with the MTFP reflecting the required provision.

Compliance with the Prudential Code

5.12 The level of borrowing for the Capital Programme needs to be based on capital investment plans that are affordable, prudent and sustainable. Treasury management decisions need to be taken in accordance with best professional practice outlined in a Prudential Code published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

5.13 To demonstrate that the objectives of affordability, prudence and sustainability have been achieved, the Prudential Code requires Prudential Indicators to be determined by the PCC. These are designed to support and record local decision making and for comparison over time. They are not designed to be comparative performance indicators. Details of the proposed indicators for 2017/18 are provided in Appendix F. Progress against the indicators will be monitored throughout the year.

6. Annual Treasury Management Strategy 2017/18

6.1 Government regulations require the PCC to approve the investment and borrowing strategies and borrowing limits for 2017/18 prior to the start of the financial year. This is incorporated within an over-arching Treasury Management Strategy, which is attached at Appendix G.

7. Reserves and Risk Management

7.1 The PCC's reserves comprise two main categories:

- General Reserve – held to enable the PCC to manage unplanned or unforeseen events. In forming a view on the level of the General Reserve, account is taken of the level of financial control, comparisons with similar bodies and the risk of unforeseen expenditure occurring, such as for major operations.

- Earmarked Reserves – These are reserves held for a specific purpose.

7.2 The PCC complies with the definition of reserves contained within CIPFA's Accounting Code of Practice.

7.3 General and earmarked reserves play a vital role in the financial management and financial standing of the PCC. The current policy of the PCC is to maintain the general reserve at around 3% of net revenue expenditure. This strategy maintains that position. The overall assessment of the adequacy of reserves is outlined in paragraphs 8.6 to 8.10.

7.4 Through sound financial management the PCC has set aside earmarked reserves to meet future spending needs. Three of the earmarked reserves in particular continue to be critical to the financial strategy as detailed below.

Budget Support Reserve

7.5 This reserve is used to support the budget over the medium term by financing costs until savings come on stream, or pump priming efficiency measures.

Capital Financing Reserve

7.6 This reserve is in place to fund short life capital assets over the medium-term.

Invest-to-Save Reserve

7.7 This reserve provides funding for initiatives which will generate future savings.

Other Earmarked reserves

7.8 A description of each of the PCC's other earmarked reserves is set out below. Each reserve is periodically reviewed to ensure that the level of funding is still appropriate for the purpose of the reserve.

- OCC Sinking Fund -Unitary Charge
  The reserve represents the excess of PFI Government grant over and above the unitary charge for the OCC building at Wymondham during the early years of the contract. The reserve will be written off over the remaining life of the contract.
- Police Investigation Centres Sinking Fund - Unitary Charge
  The reserve represents the excess of PFI Government grant over and above the unitary charge for the Police Investigation Centres during the first years of the contract. The reserve will be written off over the remaining life of the contract.
- Insurance
  Allows for anticipated future claims beyond the provision included in the budget. The level of the reserve is reviewed by independent actuarial advisers.
- Safety Camera Reserve
  This reserve is held by the Norfolk PCC on behalf of Norfolk Police and Norfolk County Council. Decisions as to allocations are made by the Safety Camera Oversight and Scrutiny Board.
- PCC Reserve
  The PCC holds a separate reserve as a contingency and to smooth spending on the commissioning programme.

7.9 A forecast for the use of the reserves is shown in Appendix E.

8. Chief Financial Officer's Section 25 Responsibilities

Background

8.1 Section 25 of Part 2 of the Local Government Act 2003, as amended by the Police Reform and Social Responsibility Act 2011, places responsibility on the PCC Chief Finance Officer (CFO) to report on the robustness of the budget estimates, the adequacy of balances and reserves and issues of risk. The PCC CFO confirms that he can provide all the required statutory assurances.

Robustness of the Budget

8.2 In regard to the robustness of budget information, confidence in this data is the subject of regular review and it has reconfirmed that the processes followed this year are sound.

8.3 The integrated financial planning model provides the high-level financial data that is used to generate the annual revenue and capital budgets, all of which are reconciled to control totals.

8.4 The comprehensive Strategic Financial Planning process has given a significant review of the various savings proposals and programmes. This has involved Chief

Officers, Finance and the Programme Management Office (PMO) from both Norfolk and Suffolk Constabularies, resulting in greater financial clarity and consistency in financial plans.

8.5 Whilst there are always risks on delivering savings, controls will be maintained on overall numbers of officers and staff meaning that spending levels will be contained overall. Identified savings will be removed from budgets prior to allocation at the start of the financial year.

Adequacy of Reserves

8.6 The projected levels of reserves are detailed in Appendix E. Over the MTFP period, the general reserve is planned to be constant at £4.475m, approximately 3% of Net Revenue Expenditure (NRE).

8.7 Over the last few years, reserves have been used appropriately to fund the capital programme in respect of short life assets, the cost of change (e.g. redundancies arising from implementing the significant change programme), and planned temporary staffing costs to respond to service pressures, and transition programmes.

8.8 Careful consideration has been given to reserve levels over the medium-term, and beyond particularly by modelling capital financing over the next 20 years.

8.9 The MTFP therefore includes planned contributions **to** reserves in 2019/20 and 2020/21 in order to ensure that sufficient reserves are available for the medium and longer-term. This will require additional savings to be found, and is a significant driver for further development of the Change Programme over the next 12 months.

8.10 The PCC CFO has considered the proposed level of reserves and believes that they are adequate for the purposes for which they are intended.

Risk and the Budget

8.11 Risk management is a key consideration for the PCC and the Chief Constable. There is an overall risk management strategy. Risk management is embedded and is an integral part of the decision making process. Local risk registers are in use throughout the Constabulary and the Office of the PCC (OPCC) and significant risks are reported to the corporate level.

8.12 The Chief Constable's corporate risk register is updated on an ongoing basis and presented regularly for review to the Command Team. A dedicated risk manager is in place to support the process. The OPCC also maintains a strategic risk register and the whole risk management process is overseen by the Audit Committee.

8.13 The main risks that may impact upon the delivery of the 2017/18 budget and Capital Programme are:

- Exceptional demands placed upon the service, particularly in relation to major incidents
- Requirements of new legislation or government directives
- Achieving the required outcomes from collaboration with other Forces
- Delivering the planned level of savings

- Maintaining an acceptable level of performance with a shrinking resource base.

8.14 To manage these risks it is essential that there is a robust monitoring procedure, and action is taken to offset the risks with continuous review processes.

Efficiency

8.15 Implicit throughout all financial planning is the need to deliver efficiency and value for money (VFM) including partnership arrangements. There is a strong VFM focus through representation on a national high level working group and an internal working group and the Audit Committee reviews the VFM strategy and Her Majesty's Inspectorate of Constabulary (HMIC) profiles.

9. CONCLUSION

9.1 This report outlines two options for the proposed precept and the medium term financial plan for the period 2017/18 to 2020/21.

9.2 In both options savings are necessary to finance inflation, pay awards, the overhang of savings required from previous spending reviews and to finance the changing demand and improve technology.

9.3 The biggest uncertainty in the medium term is a new funding formula for year 2. Whether Norfolk is a winner or a loser there is likely to be a transition over a few years. In the proposals for the now abandoned new formula the Home Office was going to look at various options for transition including a local review of reserves and change plans in order to determine an appropriate transition methodology.

10. OTHER IMPLICATIONS

10.1 The allocation of resources in accordance with the annual budget has implications for all areas of business. All of these are referred to in the report except diversity and sustainability. There are no specific diversity impacts. The budget reflects potential reductions in the use of natural resources. All significant projects, business cases and policy decisions are required to be reviewed for sustainability implications.

Home Office Grant 2017/18

1 The changes in Government funding for 2017/18 are set out in the table below:

	2016/17	2017/18	Reduction	
	£000	£000	£000	%
Police Main Grant	78,993	77,888	1,105	1.40%
Legacy Council Tax Grants	9,305	9,305	0	0.00%
Total all Grants	**88,298**	**87,193**	**1,105**	**1.25%**

2 The Legacy Council Tax grants are based on two historic elements. The first element is in respect of a former Council Tax Freeze Grant of £1.4m relating to the decision of the former Police Authority to freeze the Council Tax in 2011/12. The second element relates to the Council Tax Support Grant of £7.9m that has been payable since April 2013 when the Government made significant changes to Council Tax Benefit arrangements.

3 There are no new Council Tax freeze grant schemes available for 2017/18. The Provisional Settlement is predicated on PCCs increasing council tax up to the referendum trigger level of 2%.

4 The Home Office has “re-allocated” (top sliced) £812m in total from the national grant pot (42% higher than the £572m in the prior year). The main items making up the £240m increase are an additional £111m for the development of the Emergency Services Network (ESN) to replace Airwave and also to fund other technology programmes, £44m for the national Police Transformation Fund, £28m to strengthen the response to organised crime through the National Crime Agency and Regional Organised Crime Units, £25m for the Police Special Grant, £15m to help fund changes arising from the new Bail reforms, and £17m to increase funding to Arms Length Bodies such as Her Majesty’s Inspectorate of Constabulary, and the Independent Police Complaints Commission (IPCC).

5 Reallocations have increased by 392% from £165m in 2014/15 to £812m in 2017/18.

Budget Option 1 – Council Tax Freeze

	Line	Budget 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000
REVENUE FUNDING					
Home Office Grant	1	(77,888)	(76,720)	(75,953)	(75,193)
Legacy Council Tax Grants	2	(9,305)	(9,305)	(9,305)	(9,305)
Precept Income	3	(61,265)	(61,365)	(62,285)	(63,220)
TOTAL FUNDING	4	**(148,458)**	**(147,389)**	**(147,542)**	**(147,717)**
BASE REVENUE BUDGET INCLUDING INFLATION:					
Total Revenue Expenditure before savings	5	167,965	170,416	172,845	175,129
Revenue Funding of Capital Expenditure	6	1,568	1,568	1,568	1,568
Total Revenue Income inc Specific Grants	7	(17,568)	(17,623)	(17,678)	(17,733)
NET REVENUE BUDGET BEFORE KNOWN CHANGES AND SAVINGS	8	**151,964**	**154,361**	**156,735**	**158,964**
DEFICIT / (SURPLUS) BEFORE KNOWN CHANGES	9	**3,506**	**6,972**	**9,192**	**11,247**
Known / Expected Changes	10	9,594	4,918	5,802	3,675
Planned use of reserves	11	(8,104)	(3,130)	(2,559)	(210)
REVENUE DEFICIT BEFORE SAVINGS	12	**4,995**	**8,760**	**12,436**	**14,712**
Local Policing Review	13	(2,100)	(2,121)	(2,142)	(2,164)
Other Change Programme Savings	14	(124)	(1,152)	(1,804)	(1,879)
Other Savings	15	(1,571)	(1,981)	(2,254)	(2,524)
Savings to be identified	16	(1,201)	(3,506)	(6,236)	(8,146)
Total Cumulative Permanent Savings	17	**(4,995)**	**(8,760)**	**(12,436)**	**(14,712)**
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	18	**0**	**0**	**0**	**0**

Budget Option 2 – Council Tax increase 1.986%

	Line	Budget 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000
REVENUE FUNDING					
Home Office Grant	19	(77,888)	(76,720)	(75,953)	(75,193)
Legacy Council Tax Grants	20	(9,305)	(9,305)	(9,305)	(9,305)
Precept Income	21	(62,466)	(63,829)	(66,076)	(68,403)
TOTAL FUNDING	22	**(149,659)**	**(149,853)**	**(151,333)**	**(152,901)**
BASE REVENUE BUDGET INCLUDING INFLATION:					
Total Revenue Expenditure before savings	23	167,965	170,416	172,845	175,129
Revenue Funding of Capital Expenditure	24	1,568	1,568	1,568	1,568
Total Revenue Income inc Specific Grants	25	(17,568)	(17,623)	(17,678)	(17,733)
NET REVENUE BUDGET BEFORE KNOWN CHANGES AND SAVINGS	26	**151,964**	**154,361**	**156,735**	**158,964**
DEFICIT / (SURPLUS) BEFORE KNOWN CHANGES	27	**2,305**	**4,508**	**5,402**	**6,063**
Known / Expected Changes	28	9,594	4,918	5,802	3,675
Planned use of reserves	28	(8,104)	(3,130)	(2,559)	(210)
REVENUE DEFICIT BEFORE SAVINGS	30	**3,794**	**6,296**	**8,645**	**9,529**
Local Policing Review	31	(2,100)	(2,121)	(2,142)	(2,164)
Change Programme Savings	32	(124)	(1,152)	(1,804)	(1,879)
Other Savings	33	(1,571)	(1,981)	(2,254)	(2,524)
Savings to be identified	34	0	(1,042)	(2,445)	(2,962)
Total Cumulative Permanent Savings	35	**(3,794)**	**(6,296)**	**(8,645)**	**(9,529)**
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	36	**0**	**0**	**0**	**0**

Analysis of Known/Expected Changes (Same for both Options)

	Line	Budget 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000
STATUTORY CHANGES					
Rent and Housing Allowances	1	(118)	(318)	(518)	(718)
Variation in Bank Holiday Numbers (8 in 2016/17 then 9, 7, 8 & 9).	2	130	(130)		130
Auto-enrolment to Pension schemes	3	342	342	342	342
Local Government Pension Scheme increase	4	218	250	250	250
Firearms Licensing Income	5	57	169	123	13
Net Apprenticeship Levy impact	6	375	250	250	250
TOTAL STATUTORY CHANGES	8	**1,004**	**563**	**447**	**267**
SERVICE DEVELOPMENTS					
Academia (Evidence Based Policing Contract)	9	90			
7 Force Collaboration Contribution	10	161	161		
Reduction in investment Interest	11	195	195	195	195
Transitional cost in respect of Norfolk 2020 model	12	2,100	1,000		
Commissioning Plan	13	450			
TOTAL SERVICE DEVELOPMENTS		**2,996**	**1,356**	**195**	**195**
CAPITAL FINANCING					
Capital Programme Funding	14	4,165	1,535	3,761	1,512
Minimum Revenue Provision	15	(98)	(88)	109	411
TOTAL CAPITAL FINANCING	16	**4,067**	**1,447**	**3,870**	**1,923**
GROWTH FOLLOWING CHALLENGE PANEL PROCESS					
Permanent Growth:					
Pay	17	378	378	378	378
Non-Pay	18	108	688	912	912
Temporary Growth					
Pay	19	1,018	479		
Non-Pay	20	23	7		
TOTAL GROWTH FOLLOWING CHALLENGE PANEL PROCESS	21	**1,527**	**1,552**	**1,291**	**1,291**
Total Changes Before Reserve Movement Adjustments	22	**9,594**	**4,918**	**5,802**	**3,675**
Reserve Funded adjustments					
Academia - Evidence Based Policing Contract (Invest to Save)	23	(90)			
OCC Sinking Fund	24	(80)	(80)	(80)	(80)
PIC Sinking Fund	25	(18)	(18)	(18)	(18)
Temporary growth	26	(1,040)	(486)		
7 Force Collaboration Contribution	27	(161)	(161)		
Capital Programme Funding	28	(4,165)	(1,385)	(3,461)	(1,112)
Financing Commissioning Plan	29	(450)			
Contribution to reserves	30			1,000	1,000
Transitional cost in respect of Norfolk 2020 model	31	(2,100)	(1,000)		
Total Reserve funded adjustments	32	**(8,104)**	**(3,130)**	**(2,559)**	**(210)**
Total Known / Expected Changes (net of reserve movements)	33	**1,489**	**1,788**	**3,244**	**3,466**

Analysis of Savings

		Line	Forecast	Forecast	Forecast	Forecast
Change Programme savings:			**2017/18**	**2018/19**	**2019/20**	**2020/21**
			£000	£000	£000	£000
	Change Programme themes					
	Property Management (Lost/Stolen)	1		51	57	57
	Organisational Transformation	2	107	874	1,292	1,348
	Applications Rationalisation	3	17	68	68	68
	Athena related efficiencies	4			210	210
	Telematics	5		148	148	148
	1% Inflation	6		11	29	47
Joint Savings:		7	**124**	**1,152**	**1,804**	**1,879**
Single Force:						
	Norfolk 2020 review	8	2,100	2,121	2,142	2,164
	Norfolk Policing Model	9	**2,100**	**2,121**	**2,142**	**2,164**
Single Force Savings;		10	**2,100**	**2,121**	**2,142**	**2,164**
Total Change Programme Savings:		11	**2,224**	**3,273**	**3,946**	**4,043**
Other Savings:						
	As per challenge panels:					
	Pay (including inflation)	12	564	662	668	675
	Non-Pay (including inflation)	13	627	649	664	678
	Nation Police Air Service	14	60	60	60	60
	ERP - Legacy system savings	15	70	111	111	111
	Absorb 1% of non-pay inflation each year	16	250	500	750	1,000
Total Other Savings		17	**1,571**	**1,981**	**2,254**	**2,524**
TOTAL PERMANENT SAVINGS AGAINST 2016/17 BASE (OPTION 2)		18	**3,794**	**5,254**	**6,200**	**6,566**
FURTHER SAVINGS TO BE IDENTIFIED (OPTION 1)		19	**1,201**	**3,356**	**5,936**	**7,745**

Appendix C

High Level Analysis of the Net Budget 2016/17

Option 1 - 0% increase						
Year	OPCCN	PCC's Commissioning	Chief Constable	Capital Financing	Use of Reserves	Net Budget
	£000	£000	£000	£000	£000	£000
2017/18	970	1,468	148,489	5,635	(8,104)	**148,458**
			above assumes savings of £1,201k to be found			
2018/19	982	1,018	145,505	3,015	(3,130)	**147,389**
			above includes savings of £3,506k to be found			
2019/20	993	1,018	142,653	5,437	(2,559)	**147,542**
			above includes savings of £6,236k to be found			
2020/21	1,003	1,018	142,415	3,490	(210)	**147,717**
			above includes savings of £8,146k to be found			

Option 2 - 1.99% increase						
Year	OPCCN	PCC's Commissioning	Chief Constable	Capital Financing	Use of Reserves	Net Budget
	£000	£000	£000	£000	£000	£000
2017/18	970	1,468	149,690	5,635	(8,104)	**149,659**
2018/19	982	1,018	147,968	3,015	(3,130)	**149,853**
			above includes savings of £1042k to be found			
2019/20	993	1,018	146,443	5,437	(2,559)	**151,333**
			above includes savings of £2,445k to be found			
2020/21	1,003	1,018	147,599	3,490	(210)	**152,901**
			above includes savings of £2,962k to be found			

Capital Programme 2017/21

Appendix D

Capital MTFP								
PROJECT	Slippage assumed in 2016/17 monitoring	Additional requirement in 2017/18	2017/18 Total Requirement			2018/19	2019/20	2020/21
			Table A	Table B	Table C			
Estates								
Downham Market - Renew Heating Services.		2,000	2,000					
North Walsham - New Build.		621,000	621,000			55,000		
Attleborough - New Build at Fire Station.	500,000	0	500,000			1,000,000	13,000	
Kings Lynn - Remodelling.	395,000	2,025,000	2,420,000			80,000		
Hoveton	5,000	0	5,000					
Bethel Street - Remodelling.	1,825,000	175,000	2,000,000			1,600,000	100,000	
Gt Yarmouth - Remodelling.	1,770,000	1,840,000	3,610,000			500,000	90,000	
Carbon Management		25,000	25,000			10,000	10,000	
Gorleston - New Build at Beacon Park.		940,000		940,000		900,000	30,000	
Norfolk 2020		0				8,200,000		
Wymondham OCC Car Parks & Training Block		510,000		510,000				
Fire Service Collaboration Works		179,000		179,000				
Vantage House Dilapidations		0					100,000	
OCC accommodation adaptions		40,000		40,000				
Sprowston [Feasibility]		50,000		50,000				
TOTAL	**4,495,000**	**6,407,000**	**9,183,000**	**1,719,000**	**0**	**12,345,000**	**343,000**	**0**
ICT								
ICT Replacements - Communications		37,300	37,300					
ICT Replacements - Desktop Services		647,360	647,360			902,360	739,360	371,360
Athena		68,070	68,070					
ESN		390,000		390,000		586,300	1,700,000	
TOTAL	**0**	**1,142,730**	**752,730**	**390,000**	**0**	**1,488,660**	**2,439,360**	**371,360**
Equipment & Vehicles								
Long Term Hire Replacement		0						
Vehicle Replacement Programme	40,000	959,000	999,000			909,000	991,000	991,000
TOTAL	**40,000**	**959,000**	**999,000**	**0**	**0**	**909,000**	**991,000**	**991,000**
Total - Norfolk Only	**4,535,000**	**8,508,730**	**10,934,730**	**2,109,000**	**-**	**14,742,660**	**3,773,360**	**1,362,360**
Norfolk Share of Joint Projects	551,095	3,147,004	1,323,859	2,374,240	0	1,462,259	1,080,393	899,201
Total Norfolk Only plus Norfolk share of Joint	**5,086,095**	**11,655,734**	**12,258,589**	**4,483,240**	**0**	**16,204,919**	**4,853,753**	**2,261,561**

Capital Programme 2017/21 – continued

Capital MTFP								
JOINT PROJECTS	Slippage assumed in 2016/17 monitoring	Additional requirement in 2017/18	2017/18 Total Requirement			2018/19	2019/20	2020/21
			Table A	Table B	Table C			
ICT								
ANPR Cameras	360,000	0	360,000				500,000	
Chronicle Software		80,000		80,000				
Digital Recording / Streaming		400,000		400,000				
Intrane	36,000	0	36,000					
Constabulary Website		0						
Mobile/Smart phone/tablets		1,200,000		1,200,000				
Satellite Navigation		0				150,000		30,000
Joint ICT Replacements - Servers & Applications		885,000	885,000			828,000	773,000	914,000
ICT Replacements - Network	180,000	344,500	524,500			686,400	629,100	639,100
CCR Telephony	282,000	0	282,000					
Live Link Project		0						
Marval Extension (BSFOM)		0						
Telematics		500,000		500,000				
Business Data Management (BRC)		800,000		800,000				
Body Worn Video		1,200,000		1,200,000		600,000		
WAN Contract Renewal	105,000	0	105,000					
Transearch	7,237	0	7,237					
ERP Development								
ANPR Vehicle Equipment						260,000		
Equipment								
Tasers		50,000	50,000			50,000	0	0
Firearms Renewal		81,000	81,000			0	0	0
Automated Filing Solution								
TOTAL	**970,237**	**5,540,500**	**2,330,737**	**4,180,000**	**0**	**2,574,400**	**1,902,100**	**1,583,100**
Joint Capital Projects - Norfolk	551,095	3,147,004	1,323,859	2,374,240	0	1,462,259	1,080,393	899,201
Joint Capital Projects - Suffolk	419,142	2,393,496	1,006,878	1,805,760	0	1,112,141	821,707	683,899
	970,237	**5,540,500**	**2,330,737**	**4,180,000**	**0**	**2,574,400**	**1,902,100**	**1,583,100**

Capital Financing is shown in the Table at paragraph 5.7

FORECAST MOVEMENT IN GENERAL AND EARMARKED RESERVES 2016/17 to 2020/21

PROJECTION OF RESERVES LEVELS:	Total General Reserve	OCC Sinking Fund	PIC Sinking Fund	Insurance	Budget Support	Capital Financing	Invest to Save	Safety Camera	PCC	Total Earmarked Reserve
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
31/03/2016 Actual	**4,475**	**1,760**	**402**	**786**	**7,795**	**10,218**	**1,354**	**1,286**	**938**	**24,539**
Proposed Changes 2016/17:										
Transfer to Revenue from Reserves		(80)	(18)		(354)	(3,283)	(274)	(981)		**(4,990)**
Transfer from Revenue to Reserves								718		**718**
Constabulary overspend									(500)	**(500)**
Commissioning underspend									200	**200**
31/03/2017 Forecast	**4,475**	**1,680**	**384**	**786**	**7,441**	**6,935**	**1,080**	**1,023**	**638**	**19,967**
Proposed Changes 2017/18:										
Transfer to Revenue from Reserves		(80)	(18)		(1,040)	(4,165)	(251)			**(5,554)**
Financing Commissioning Plan									(450)	**(450)**
Transfer to Revenue from Reserves (Norfolk 2020)					(2,100)					**(2,100)**
31/03/2018 Forecast	**4,475**	**1,600**	**366**	**786**	**4,301**	**2,770**	**829**	**1,023**	**188**	**11,863**
Proposed Changes 2018/19:										
Transfer to Revenue from Reserves		(80)	(18)		(486)	(1,385)	(161)			**(2,130)**
Transfer to Revenue from Reserves (Norfolk 2020)					(1,000)					**(1,000)**
31/03/2019 Forecast	**4,475**	**1,520**	**348**	**786**	**2,815**	**1,385**	**668**	**1,023**	**188**	**8,733**
Proposed Changes 2019/20:										
Transfer to Revenue from Reserves		(80)	(18)			(3,461)				**(3,559)**
Contribution to Reserves					1,000					**1,000**
Transfer between Reserves					(2,075)	2,075				
31/03/2020 Forecast	**4,475**	**1,440**	**330**	**786**	**1,740**	**(0)**	**668**	**1,023**	**188**	**6,175**
Proposed Changes 2020/21:										
Transfer to Revenue from Reserves		(80)	(18)			(1,112)				**(1,210)**
Contribution to Reserves					1,000					**1,000**
Transfer between Reserves					(1,112)	1,112				
31/03/2021 Forecast	**4,475**	**1,360**	**312**	**786**	**1,628**	**0**	**668**	**1,023**	**188**	**5,965**

Appendix F

Prudential Code Indicators 2017/18, 2018/19, 2019/20

1. Background

1.1 The Prudential Code for capital investment came into effect on 1st April 2004. It replaced the complex regulatory framework, which only allowed borrowing if specific government authorisation had been received. The Prudential system is one based on self-regulation. All borrowing undertaken is self-determined under the prudential code.

1.2 Under Prudential arrangements the PCC can determine the borrowing limit for capital expenditure. The Government does retain reserve powers to restrict borrowing if that is required for national economic reasons.

1.3 The key objectives of the Code are to ensure, within a clear framework, that capital investment plans are affordable, prudent and sustainable. The Code specifies indicators that must be used and factors that must be taken into account. The Code requires the PCC to set and monitor performance on:

- capital expenditure
- affordability
- external debt
- treasury management (now included within Treasury Management strategy)

1.4 The required indicators are:

- Capital Expenditure Payment Forecast
- Ratio of Capital Financing costs to Net Revenue Budget
- Capital Financing Requirement
- Net Borrowing for Capital Purposes
- Authorised Limit for External Debt
- Operational Boundary Limit for External Debt
- Incremental Impact of Capital Programme on Band D Council Tax

1.5 Once determined, the indicators can be changed so long as this is reported to the PCC.

1.6 Actual performance against indicators will be monitored throughout the year. All the indicators will be reviewed and updated annually.

2. The Indicators

2.1 The **Capital Expenditure Payment Forecast** is detailed in Appendix D. The total estimated payments are:

	2017/18	**2018/19**	**2019/20**
	£m	£m	£m
Capital Expenditure Forecast	16.742	16.205	4.854

The PCC is being asked for approval to an overall Capital Programme based on the level of capital financing costs contained within the draft revenue budget.

2.2 The **ratio of capital financing costs to net revenue budget** shows the estimated annual revenue costs of borrowing (net interest payable on debt and the minimum revenue provision for repaying the debt), as a proportion of annual income from council taxpayers and government. The estimates include PFI MRP and interest costs. Estimates of the ratio of capital financing costs to net revenue budget for future years are:

Ratio of Capital Financing Costs to Net Revenue Budget		
2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
5.38%	5.67%	5.92%

2.3 The **capital financing requirement** represents capital expenditure financed by external debt and not by capital receipts, revenue contributions, capital grants or other sources of external funding. Estimates of the end of year capital financing requirement for future years are:

Capital Financing Requirement			
31/03/17 Estimate	31/03/18 Estimate	31/03/19 Estimate	31/03/20 Estimate
£88.414m	£97.616m	£108.251m	£106.487m

The capital financing requirement measures the underlying need to borrow for a capital purpose.

2.4 The guidance on **net borrowing for capital purposes** advises that:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the PCC should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

Net borrowing refers to the PCC's total external borrowing net of any temporary cash investments and must work within this requirement.

2.5 The Code defines the **authorised limit for external debt** as the sum of external borrowing and any other financing long-term liabilities e.g. finance leases. It is recommended that the PCC approve the 2017/2018 and future years limits.

For 2017/18 this will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

As required by the Code, the PCC is asked to delegate authority to the Chief Finance Officer (OPCCN), within the total limit for any individual year, to effect movement between the separate limits for borrowing and other long term liabilities. Any such changes made will be reported to the PCC.

Authorised Limit for External Debt			
	2017/18	2018/19	2019/20
	£m	£m	£m
PWLB borrowing	21.821	37.172	39.937
Other long term liabilities (OCC PFI)	25.500	25.052	24.552
Other long term liabilities (PIC PFI)	35.876	35.244	34.565
Safety net	7.824	8.823	8.934
Total	91.021	106.291	107.988

These proposed limits are consistent with the Capital Programme. They provide headroom to allow for operational management, for example unusual cash movements.

2.6 The Code also requires the PCC to approve an **operational boundary limit for external debt** for the same time period. The proposed operational boundary for external debt is the same calculation as the external debt limit without the additional headroom. The operational boundary represents a key management tool for in year monitoring.

Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified again. The PCC is asked to delegate authority to the Chief Finance Officer (OPCCN), within the total operational boundary for any individual year, to make any required changes between the separately agreed figures for borrowing and other long-term liabilities. Any changes will be reported to the PCC.

Operational Boundary Limit for External Debt			
	2017/18	2018/19	2019/20
	£m	£m	£m
PWLB borrowing	21.821	37.172	39.937
Other long term liabilities (OCC PFI)	25.500	25.052	24.552
Other long term liabilities (PIC PFI)	35.876	35.244	34.565
Total	83.197	97.468	99.054

The Office of the Police and Crime Commissioner for Norfolk
Annual Investment and Treasury Strategy 2017/18

1. Introduction

1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice for Treasury Management in the Public Services (the Code) requires local authorities to produce a treasury management strategy for the year ahead. The PCC is required to comply with the Code through regulations issued under the Local Government Act 2003 and has adopted specific clauses and policy statements from the Code as part of its Financial Regulations.

1.2 Complementary to the CIPFA Code is the Department for Communities and Local Government's (DCLG's) Investment Guidance, which requires local authorities and PCCs to produce an Annual Investment Strategy. This report combines the reporting requirements of both the CIPFA Code and DCLG's Investment Guidance.

1.3 The primary objectives of the PCC's Investment Strategy are to safeguard the timely repayment of principal and interest, whilst ensuring adequate liquidity for cash flow and the generation of investment yield. A flexible approach to borrowing for capital purposes will be maintained which avoids the 'cost of carrying debt' in the short term. This strategy is prudent while investment returns are low and counterparty risk (the other party involved in a financial transaction, typically a bank or building society) remains relatively high.

2. The Treasury Management Function

2.1 The CIPFA Code defines treasury management activities as "the management of the PCC's cash flows, its banking, money market and capital market transactions; the effective management of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.2 The PCC is required to operate a balanced budget, which broadly means that cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties, providing adequate liquidity before considering investment return.

2.3 A further function of the treasury management service is to provide for the borrowing requirement of the PCC, essentially the longer term cash flow planning, typically 30 years plus, to ensure the PCC can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using internal cash balances on a temporary basis. Debt previously borrowed may be restructured to meet PCC risk or cost objectives.

2.4 The PCC has delegated responsibility for treasury management decisions taken within the approved strategy to the PCC CFO. Day to day execution and administration of investment and borrowing decisions is undertaken by the Specialist Accountant (Treasury Management, Cash Management & VAT) based in the Joint Finance Department for Suffolk and Norfolk Constabularies.

2.5 External treasury management services continue to be provided by Capita Asset Services in a joint contract with the PCC for Suffolk. Capita Asset Services provides a range of services which include:

- Technical support on treasury matters and capital finance issues.
- Economic and interest rate analysis.
- Debt services which includes advice on the timing of long term borrowing.
- Debt rescheduling advice surrounding the existing portfolio.
- Generic investment advice on interest rates, timing and investment instruments.
- Credit ratings/market information service for the three main credit rating agencies (Fitch, Moody's and Standard & Poors).

2.6 Whilst Capita Asset Services provide support to the treasury function, under market rules and in accordance with the CIPFA Code of Practice, the final decision on treasury matters remains with the PCC.

2.7 Financial Regulations Section C7 includes:-

7.6 Responsibility for the implementation of the PCC's treasury management policies and practices, and day to day administration of treasury management decisions is vested in the CC CFO, in liaison with the PCC CFO, who will act in accordance with the organisation's policy statement and Treasury Management Practices (TMPs) and, CIPFA's Statement of Professional Practice on Treasury Management.

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

2.8 Performance will continue to be monitored and reported to the PCC as required.

3. Capita Asset Services Economic Forecast

Economic Overview

3.1 **UK.** GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

3.2 The referendum vote for Brexit in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016. The Bank of England reduced the Bank Rate from 0.50% to 0.25 in August 2016 and it has remained at this level since.

3.3 The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017. This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, however the MPC is expected to look through the acceleration in inflation caused by external influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of cost pressures on consumers, then they would take action to raise the Bank Rate.

3.4 **Brexit Timetable / Process:**

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
- The UK and EU would attempt to negotiate a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU but may also exit without any such agreements.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU.
- On exit from the EU the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.
- It is possible that some sort of agreement could be reached for a transitional time period for actually implementing Brexit after March 2019 so as to help exporters to adjust in both the EU and in the UK.

3.5 **USA**. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation; the Fed. indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures. The result of the presidential election in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment

3.6 **Europe** GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.7% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. ECB measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

3.7 **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.

3.8 **Spain** has had two inconclusive general elections in 2015 and 2016. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.

3.9 **Italy / Germany** the under capitalisation of Italian banks poses a major risk. Some German banks are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also 'too big, and too important to their national economies, to be allowed to fail'.

3.10 The following table gives Capita Asset Services central view of UK Base Rate and Public Works Loan Board (PWLB) borrowing rates:

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

4. Investment Strategy 2017/18

4.1 Forecasts of short-term interest rates, on which investment decisions are based, suggest that the 0.25% Bank Rate will remain unchanged until the end of the first quarter of 2019 and not to rise above 0.75% by the first quarter of 2020.

4.2 The investment earnings rate which most closely matches our average deposit profile is the 3 month LIBID (London Intra Bank Bid rate for money market trades) forecast. The suggested budgeted interest rates for the following 3 financial years are as follows:

Financial Year	Budgeted Interest Earnings
2017/18	0.25%
2018/19	0.25%
2019/20	0.50%

4.3 There are 3 key considerations to the treasury management investment process. CLG's Investment Guidance ranks these in the following order of importance:

- security of principal invested,
- liquidity for cash flow, and
- investment return (yield).

Each deposit is considered in the context of these 3 factors, in that order.

4.4 CLG's Investment Guidance requires local authorities and PCCs to invest prudently and give priority to security and liquidity before yield, as described above. In order to facilitate this objective, the Guidance requires the PCC to have regard to CIPFA's Code of Practice for Treasury Management in the Public Sector.

4.5 The key requirements of both the Code and the Investment Guidance are to produce an Annual Investment and Treasury Strategy covering the following:

- Guidelines for choosing and placing investments – Counterparty Criteria and identification of the maximum period for which funds can be committed – Counterparty Monetary and Time Limits (Section 5).
- Details of Specified and Non-Specified investment types (Section 6).

5. Investment Strategy 2017/18 - Counterparty Criteria

5.1 The PCC works closely with its external treasury advisors to determine the criteria for high quality institutions.

5.2 The criteria for providing a pool of high quality investment counterparties for inclusion on the PCC's 'Approved Authorised Counterparty List' is provided below

(i) **UK Banks** which have the following minimum ratings from at least one of the three credit rating agencies:

UK Banks	**Fitch**	**Standard & Poors**	**Moody's**
Short Term Ratings	F1	A-1	P-1
Long Term Ratings	A-	A-	A3

(ii) **Non-UK Banks** domiciled in a country which has a minimum sovereign rating of AA+ and have the following minimum ratings from at least one of the credit rating agencies:

Non-UK Banks	**Fitch**	**Standard & Poors**	**Moody's**
Short Term Ratings	F1+	A-1+	P-1
Long Term Ratings	AA-	AA-	Aa3

- **Part Nationalised UK Banks –** Royal Bank of Scotland Group (including Nat West). These banks are included while they continue to be part nationalised or they meet the minimum rating criteria for UK Banks above.

- **The PCC's Corporate Banker –** If the credit ratings of the PCC's corporate banker (currently Barclays Bank plc) fall below the minimum criteria for UK Banks above, then cash balances held with that bank will be for account operation purposes only and balances will be minimised in terms of monetary size and time.

- **Building Societies –** The PCC will use Building Societies which meet the ratings for UK Banks outlined above.

- **Money Market Funds (MMFs) –** which are rated AAA by at least one of the three major rating agencies. MMF's are 'pooled funds' investing in high-quality, high-liquidity, short-term securities such as treasury bills, repurchase agreements and certificate of deposit. Funds offer a high degree of counterparty diversification that include both UK and Overseas Banks.

- **UK Government –** including the Debt Management Account Deposit Facility & Sterling Treasury Bills. Sterling Treasury Bills are short-term (up to six months) 'paper' issued by the UK Government. In the same way that the Government issues Gilts to meet long term funding requirements, Treasury Bills are used by Government to meet short term revenue obligations. They have the security of being issued by the UK Government.

- **Local Authorities, Parish Councils etc. –** Includes those in England and Wales (as defined in Section 23 of the Local Government Act 2003) or a similar body in Scotland or Northern Ireland.

5.3 All cash invested by the PCC in 2017/18 will be either Sterling deposits (including certificates of deposit) or Sterling Treasury Bills invested with banks and other institutions in accordance with the Approved Authorised Counterparty List.

5.4 The Code of Practice requires local authorities and PCCs to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for use, additional market information will be used to inform investment decisions. This additional market information includes, for example, Credit Default Swap rates and equity prices in order to compare the relative security of counterparties.

5.5 The current maximum lending limit of £10m for any counterparty will be maintained in 2017/18 to reflect the level of cash balances and to avoid large deposits with the Debt Management Office (HM Treasury).

5.6 In addition to individual institutional lending limits, “Group Limits” will be used whereby the collective investment exposure of individual banks within the same banking is restricted to a group lending limit of £10m.

5.7 The Strategy permits deposits beyond 365 days (up to a maximum of 2 years) but only with UK banks which meet the credit ratings at paragraph 5.2. Deposits may also be placed with UK Part Nationalised Banks and Local Authorities for periods of up to 2 years.

5.8 A reasonable amount will be held on an instant access basis in order for the PCC to meet any unexpected needs. Instant access accounts are also preferable during periods of credit risk uncertainty in the markets, allowing the PCC to immediately withdraw funds should any concern arise over a particular institution.

6. Investment Strategy 2017/18 – Specified and Non-Specified Investments

6.1 As determined by CLG’s Investment Guidance, Specified Investments offer “high security and high liquidity”. They are Sterling denominated and have a maturity of less than one year. Institutions of “high” credit quality are deemed to be Specified Investments. From the pool of high quality investment counterparties identified in Section 5, the following are deemed to be Specified Investments where the period of deposit is 364 days or less:

- Banks: UK and Non-UK;
- Part Nationalised UK Banks;
- The PCC’s Corporate Banker (Barclays Bank plc)
- Building Societies (which meet the minimum ratings criteria for Banks);
- Money Market Funds;
- UK Government;
- Local Authorities, Parish Councils etc.

6.2 Non-Specified Investments are those investments that do not meet the criteria of Specified Investments. From the pool of counterparties identified in Section 5, they include:

- Any investment greater than 364 days.

6.3 The categorisation of 'Non-Specified' does not in any way detract from the credit quality of these institutions, but is merely a requirement of the Government's guidance.

6.4 The PCC's proposed Strategy for 2017/18 therefore includes both Specified and Non-Specified Investment institutions.

7. Borrowing Strategy 2017/18

7.1 Capital expenditure can be paid for immediately by applying capital receipts, capital grants or revenue contributions. Capital expenditure in excess of available capital resources or revenue contributions will add to the PCC's borrowing requirement. The PCC's need to borrow is measured by the Capital Financing Requirement, which simply represents the total outstanding capital expenditure, which has not yet been paid for from either capital or revenue resources.

7.2 For the PCC, borrowing principally relates to long term loans (i.e. loans in excess of 364 days). The borrowing strategy includes decisions on the timing of when further monies should be borrowed.

7.3 The main source of long term loans is the Public Works Loan Board (PWLB), which is part of the UK Debt Management Office (DMO). The maximum period for which loans can be advanced by the PWLB is 50 years.

7.4 External borrowing currently stands at £8.36m. At 31 March 2016 there was a £11.69m capital funding requirement relating to unfunded capital expenditure financed from internal resources. The net capital funding requirement is estimated to be £12.20m at 31 March 2017 and £14.09m at 31 March 2018. The new borrowing requirement is estimated at £ 0.83m for 2016/17 and £2.20m for 2017/18. The capital funding requirement figure does not include the funding requirement in respect of assets financed through PFI or leasing.

7.5 The challenging and uncertain economic outlook outlined by Capita Asset Services in Section 3, together with managing the cost of "carrying debt" requires a flexible approach to borrowing. The PCC, with advice from the CFO, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks identified in Capita Asset Services economic overview (Section 3).

7.6 The level of outstanding debt and composition of debt, in terms of individual loans, is kept under review. The PWLB provides a facility to allow the restructure of debt, including premature repayment of loans, and encourages local authorities and PCCs to do so when circumstances permit. This can result in net savings in overall interest charges. The PCC CFO and Capita Asset Services will monitor prevailing rates for any opportunities during the year. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt

7.7 The PCC has flexibility to borrow funds in the current year for use in future years. but will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the PCC can ensure the security of such funds

7.8 PWLB borrowing has become less attractive in recent years, due to its policy decision to increase the margin payable over interest rates (Gilts). In response, the Local Government Association is currently in the process of setting up a "Municipal Bond Agency" which will be offering loans to local authorities in the near future. It is hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB).

7.9 The PCC will continue to use the most appropriate source of borrowing at the time of making application, including; the PWLB, commercial market loans and the Municipal Bond Agency.

8. Treasury Management Prudential Indicators

8.1 There are four treasury related Prudential Indicators. The purpose of the indicators is to restrict the activity of the treasury function to within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these indicators are too restrictive, they will impair the opportunities to reduce costs/improve performance. The Indicators are:

- **Upper Limits on Variable Interest Rate Exposure** – This identifies a maximum limit for variable interest rates based upon the debt position net of investments. It is recommended that the PCC set an upper limit on its variable interest rate exposures for 2017/18, 2018/19 and 2019/20 of 100% of its net outstanding principal sums.

- **Upper Limits on Fixed Interest Rate Exposure** – Similar to the previous indicator, this covers a maximum limit on fixed interest rates. It is recommended that the PCC set an upper limit on its fixed interest rate exposures for 2017/18, 2018-2019 and 2019-2020 of 100% of its net outstanding principal sums.

- **Maturity Structures of Borrowing** – These gross limits are set to reduce the PCC's exposure to large fixed rate sums falling due for refinancing and require upper and lower limits. It is recommended that the PCC sets the following limits for the maturity structures of its borrowing.:

	Lower Limit	Upper Limit
Under 12 months	0%	15%
12 months and within 24 months	0%	15%
24 months and within 5 years	0%	45%
5 years and within 10 years	0%	75%
10 years and above	0%	100%

- **Total Principal Funds Invested for Greater than 364 Days –** This limit is set with regard to the PCC's liquidity requirements. It is estimated that in 2017/18, the maximum level of PCC funds invested for periods greater than 364 days will be no more than £10m.

MINIMUM REVENUE PROVISION STATEMENT 2017/18

Introduction

1. The PCC is required to make a charge against the revenue budget each year in respect of capital expenditure financed by borrowing or credit arrangement. The annual charge is set aside for the eventual repayment of the loan and is known as the Minimum Revenue Provision (MRP). This is separate from any annual interest charges that are incurred on borrowing.

2. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 amend the way in which MRP can be calculated so that each authority must consider what is “prudent”. The regulations are backed up by statutory guidance which gives advice on what might be considered prudent.

Options for Making Prudent Provision

3. Four options are included in the guidance, which are those likely to be most relevant for the majority of authorities. Although other approaches are not ruled out, authorities must demonstrate that they are fully consistent with the statutory duty to make prudent revenue provision.

   <u>Option 1 - Regulatory Method</u>
   Authorities may continue to use the formulae put in place by the previous regulations.

   <u>Option 2 - Capital Financing Requirement Method</u>
   This is a technical calculation based upon taking 4% of the level of outstanding debt as signified by the previous year’s balance sheet.

   <u>Option 3 – Asset Life Method</u>
   This is to make provision over the estimated life of the asset for which the borrowing is undertaken. This could be done by:

   (a) Charging MRP in equal instalments over the life of the asset
   (b) Charging MRP according to the flow of benefits from an asset where the benefits are expected to be different between years (CIPFA guidance is awaited for this methodology)

   <u>Option 4 - Depreciation</u>
   The asset is depreciated in accordance with standard accounting methods

4. The regulations make a distinction between capital expenditure incurred before 1 April 2008 and capital expenditure incurred from 1 April 2008 in terms of the options available.

5 Options 1 and 2 are to be used for capital expenditure incurred pre April 2008. Options 3 and 4 are to be used for Capital expenditure incurred post April 2008.

Recommendations

6. In order to avoid complexity and to spread the charge to the revenue budget over the life of the asset, it is recommended that for MRP purposes the PCC continues with the current approach, namely that:

   - Capital expenditure incurred before April 2008 is treated in accordance with option 1 of the regulatory guidance; and

   - Capital expenditure incurred from April 2008 is treated in accordance with option 3(a) of the regulatory guidance.

Appendix I

Norfolk PCC Precept 2017/18 Option 1 – Council Tax Freeze

		£	
Budget Requirement		148,458,008	
Less Government Funding		87,192,814	
To be met from council tax (incl. surplus)		61,265,194	

Billing Authority	**Precept Amount**	**Surplus on Collection Fund**	**Total Payments Due**
	£	**£**	**£**
Breckland	8,941,585	35,443	8,977,028
Broadland	9,608,279	19,875	9,628,154
Kings Lynn & West Norfolk	10,333,91	113,000	10,446,914
Norwich	47,467,167	259,263	7,726,430
Great Yarmouth	5,822,205	65,892	5,888,097
North Norfolk	8,250,999	157,471	8,408,470
South Norfolk	10,033,733	156,368	10,190,101
	60,457,883	807,312	61,265,194

Vaulation Band	**Council Tax 2017/18 £**
A	141.96
B	165.62
C	189.28
D	212.94
E	260.26
F	307.58
G	354.90
H	425.88

(i) As in previous years instalment payments will be made to the PCC by the district councils on the day that they receive their government grant instalments. This will minimise the cash flow effect on the collection authorities.

(ii) Where a surplus on collection of 2016/17 council tax has been estimated, the District Council concerned will pay to the PCC its proportion of the sum by ten equal instalments, as an addition to the May 2017 to February 2018 precept payments.

(iii) Where a deficit on collection of 2016/17 council tax has been estimated, the District Council concerned will receive from the PCC its proportion of the sum by ten equal instalments, as a reduction to the May 2017 to February 2018 precept payments.

Appendix J

Norfolk PCC Precept 2017/18 Option 2 – 1.99% increase in Council Tax

		£
Budget Requirement		149,658,989
Less Government Funding		87,192,814
To be met from council tax (incl. surplus)		62,466,175

Billing Authority	Precept Amount	Surplus on Collection Fund	Total Payments Due
	£	£	£
Breckland	9,119,207	35,443	9,154,650
Broadland	9,799,145	19,875	9,819,020
Kings Lynn & West Norfolk	10,539,195	113,000	10,652,195
Norwich	7,615,500	259,263	7,874,763
Great Yarmouth	5,937,862	65,892	6,003,754
North Norfolk	8,414,903	157,471	8,572,374
South Norfolk	10,233,050	156,368	10,389,418
	61,658,864	807,312	62,466,175

Vaulation Band	Council Tax 2017/18 £
A	144.78
B	168.91
C	193.04
D	217.17
E	265.43
F	313.69
G	361.95
H	434.34

(i)	As in previous years instalment payments will be made to the PCC by the district councils on the day that they receive their government grant instalments. This will minimise the cash flow effect on the collection authorities.
(ii)	Where a surplus on collection of 2016/17 council tax has been estimated, the District Council concerned will pay to the PCC its proportion of the sum by ten equal instalments, as an addition to the May 2017 to February 2018 precept payments.
(iii)	Where a deficit on collection of 2016/17 council tax has been estimated, the District Council concerned will receive from the PCC its proportion of the sum by ten equal instalments, as a reduction to the May 2017 to February 2018 precept payments.