January 2019

Office of the Police & Crime Commissioner
Budget Consultation 2019/20

Summary

1 The Police and Crime Commissioner (PCC) has a statutory duty to consult Norfolk people on his proposals over whether to raise the amount they pay for policing through their council tax, or precept.

2 This report outlines how the Office of the Police and Crime Commissioner (OPCCN) proposes consulting on the Commissioner's proposals and publishing the results.

1.0 Background

1.1 The Police and Crime Commissioner has a statutory duty to consult Norfolk people on his proposals over whether to raise the amount they pay of policing through their council tax, or precept.

1.2 <u>Police Act 1996, Section 96:</u>

Arrangements for obtaining the views of the community on policing

(1) Arrangements shall be made for each police area for obtaining—
(a) the views of people in that area about matters concerning the policing of the area, and
(b) their co-operation with the police in preventing crime in that area.

(2) Except as provided by subsections (3) to (6), arrangements for each police area shall be made by the police authority after consulting the chief constable as to the arrangements that would be appropriate.

(7) A body or person whose duty it is to make arrangements under this section shall review the arrangements so made from time to time.

(8) If it appears to the Secretary of State that arrangements for a police area are not adequate for the purposes set out in subsection (1), he may require the body or person whose duty it is to make arrangements for that area to submit a report to him concerning the arrangements.

(9) After considering a report submitted under subsection (8), the Secretary of State may require the body or person who submitted it to review the arrangements and submit a further report to him concerning them.

(10) A body or person whose duty it is to make arrangements shall be under the same duties to consult when reviewing arrangements as when making them.

Amended by Police Reform and Social Responsibility Act 2011, Section 14:

(1B) Those arrangements must include, in the case of a police area listed in Schedule 1, arrangements for obtaining, before the first precept for a financial year is issued by the police and crime commissioner under section 40 of the Local Government Finance Act 1992, the views of—
(a) the people in that police area, and
(b) the relevant ratepayers' representatives,
on the proposals of the police and crime commissioner for expenditure (including capital expenditure) in that financial year.

(2) Arrangements under this section are to be made by the local policing body for the police area, after consulting the chief officer of police for that area.

1.3 Consultation guidance

The Consultation Code of Practice 2008 was abolished in 2012 and, with it, the minimum consultation timescale of 12 weeks. The Code was replaced by a list of consultation principles adopted in 2016 by Government departments.

Those principles make reference to consultations lasting for a 'proportionate amount of time…taking into account the nature and impact of the proposal', tailoring consultation 'to the needs and preferences of particular groups that may not respond to traditional consultation methods, and when consultation spans all or part of a holiday period, considering 'how this may affect consultation and take appropriate mitigating action.'

2.0 Approach to consultation

2.1 There is a duty on the PCC to consult with members of the public and ratepayers and community representatives.

2.2 Consultation can be undertaken in whatever format the PCC considers appropriate.

2.3 The public consultation for 2019/20 is scheduled to run from 2nd January 2018 to 30th January 2018 (this is subject to change). Any extension is at the PCC's discretion.

2.4 The Commissioner will report the results of the public consultation back to the Police and Crime Panel at its precept meeting on February 5th.

2.5 The Office of the Police and Crime Commissioner's consultation will include:

- Norfolk public
- Norfolk Community Safety Partnership members
- Norfolk Constabulary personnel
- Norfolk's business community
- Partner agencies
- Local authorities

2.6 The OPCCN consultation will include the following channels:

- PCC and Norfolk Constabulary websites
- Norfolk Constabulary Intranet
- Police Connect (messaging service via text)
- PCC's regular news round up
- OPCCN e-mail signatures
- OPCCN partner contacts
- Local, community and parish publications and websites
- Volunteers (including Independent Advisory Group and Independent Custody Visitor network)
- Social media (Twitter, facebook etc)
- 'Mainstream media' (Press Release, interviews etc)
- Norfolk Association of Local Councils
- Elected representatives
- Your Voice (county consultation mechanism via email to subscriber list)

Our principles for consulting on-line:

- The OPCCN believes consultation should be digitally inclusive, not digitally exclusion.
- The OPCCN believes limiting responses to one per url could, potentially, exclude members of same household who use the same computer.
- The OPCCN believes such a limit could disadvantage people without direct access to a digital device. Those who may use a library computer for example should not be restricted.
- The OPCCN understands there is nothing to stop people filling in more than one hard copy consultation response and understands this risk.
- The OPCCN commits to read every response and to spot any repeats/unusual patterns and note these in the final consultation report.
- Overall the OPCCN believes digitally inclusivity out-weighs the potential risks of fraud.

Scheduled public engagement:

- Wednesday 9 January - Norwich Market Place from 2pm talking to members of the public.
- Wednesday 9 January - public question and answer meeting from 6pm-8pm in the Forum, Norwich.

- Thursday 10 January – in West Norfolk in Downham Market town centre from 10.30am engaging with members of the public.
- Wednesday 16 January - Great Yarmouth Market Place from noon engaging with members of the public.
- Thursday 17 January- in North Norfolk at First Focus in Fakenham from 10.30 am.
- Monday 21 January- Wymondham, South Norfolk, from 10.30am engaging with members of the public.
- Monday 28 January- in Breckland in Dereham town centre engaging with members of the public from 10.30am
- Wednesday 30 January- in Broadland engaging with members of the public.

3.0 Results of the public consultation

3.1 The full results of the public consultation and comments received will be published on the OPCCN website.

3.2 A full, printed copy of all responses will be placed in the Members' Room at County Hall for reference.

4.0 Conclusions & Recommendations

4.1 The Police and Crime Panel is asked to note the approach for the Police and Crime Commissioner's budget/precept consultation 2019/20.

Appendices

- Appendix 1- Survey
- Appendix 2- leaflet
- Appendix 3- press release
- Appendix 4- website
- Appendix 5- online survey

Dear Norfolk resident

As your Police and Crime Commissioner, it's my job to set the policing budget for Norfolk and, with it, how much you contribute through council tax. 56% of Norfolk's policing budget is funded by central government; your council tax makes up the rest. With such a significant contribution coming from your pocket, I want all Norfolk residents to have a say on how that funding is used.

Please spare a few minutes to take the survey in this document.

You can also share your views online at www.norfolk-pcc.gov.uk, by telephone on 01953 424455, by email to TellLorne@norfolk.pnn.police.uk, or by writing to me at OPCCN, Building 8, Falconers Chase, Wymondham, NR18 0WW.

A message from your PCC

Being your Police and Crime Commissioner is a source of great pride to me and to have the chance to serve the people of Norfolk is a huge honour.

I have spent a great deal of time over the past year listening to Norfolk communities. They tell me that not only do they want to be safe, they want to feel safe. Our constabulary has a responsibility to offer that assurance in our homes, on our streets and in our communities.

However, at the same time, I recognise the financial situation for policing continues to be extremely challenging. The nature of crime is becoming more complex.

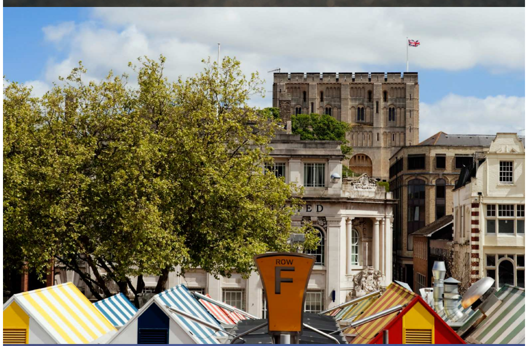
The Chief Constable has told me that no increase would, inevitably, lead to further police officer and staff reductions. But before I consider raising the policing element of the council tax, I have to be absolutely sure that the force continues to drive efficiencies at every turn, including from collaboration and partnership working.

At the moment, the maximum council tax increase I can consider for 2019/20 is 46 pence per week, which amounts to around £24 a year extra for an average household in a Band D property.

It is important to stress that, in Norfolk, 62% of properties are below Band D so would pay less.

Setting the policing budget and, with it, making the decision whether to raise the policing element of people's council tax is, arguably, one of the most difficult parts of my role. It is not a decision I take lightly.

To help inform my budget decision, I would like to hear your views and know what you would be prepared to pay next year for policing.



So, what I am asking is...

....would you be prepared to pay more for policing in Norfolk? And, if so, please share with me your views on the level of increase.

Before you take the survey, please read the update from the Chief Constable which outlines the current situation for Norfolk Constabulary and what the council tax options would mean for your policing service.

Your views are important to me and will help inform my budget decisions for 2019/20, so please take the time to have your say between now and Wednesday 30 January 2019.

Thank you.

Lorne Green
Police and Crime Commissioner
for Norfolk

From the Chief Constable

CHANGING FACE OF CRIME

Our Norfolk 2020 policing model was designed to take into consideration our current and future demands as well as the changing face of crime. We wanted to ensure that whatever changes we introduced, the county would remain one of the safest in the country while at the same time be able to meet any future challenges.

We know that, as society changes, so does the nature of the crime we need to police, with offences becoming increasingly complex as demand grows around exploitation of the vulnerable, drug dealing and violent crime. To tackle these threats to our community we made a bold decision to invest more in the wide range of skills that police officers can provide rather than the service that police community support officers so very ably delivered.

"We wanted to ensure that whatever changes we introduced, the county would remain one of the safest in the country."

BEST SERVICE POSSIBLE

Our investigation hub proposals look to focus on offenders who pose the greatest risk to our neighbourhoods and at the same time give the best service possible to all victims, particularly those who have suffered the most harm. If our investigation roles and the locations of stations stayed the same, an increase of well over £1million of detective constables would be required and still they would not be afforded the technical and analytical capabilities required to continue to investigate effectively. Centralising investigations means we can reduce cost but more importantly will bring together in one place all the technology, support, skills and expertise that investigators need to deal with these incredibly complex and impactive crimes.

2020 POLICING MODEL

Always designed to be flexible and scalable, early signs are that the 2020 policing model is having the desired effect. Placing neighbourhood policing as its bedrock and recognising the importance of local visible policing for communities, the rollout of officers and staff, particularly into neighbourhood-based teams, is now almost complete. One area of business where significant outcomes have been achieved is Operation Moonshot. These specialist units, made up of eight police officers and one sergeant, concentrate their work solely on disrupting criminals using Norfolk's road networks and, in the process, protecting our communities thereby allowing frontline officers to focus on regular calls for service. They employ tactics combining innovative use of intelligence, dedicated available officer time, specialist training and exploitation of technology including mobile working and Automatic Number Plate Recognition (ANPR) software to achieve instant results with over 600 arrests made and more than 900 vehicle seizures achieved in 500 operational days.

> **"Early signs are that the 2020 policing model is having the desired effect."**

Successes have also been seen in projects such as Operation Solve which aims to alleviate demand to the frontline by using restricted and recuperative duties officers from around the county to take up both crime recording and some routine investigations. Supported by our new telephony system and refreshed website, more people are now able to access our services directly on a daily basis. We have also revolutionised the way we provide our face-to-face service, providing officers with tablets and phones which enable them to work remotely to take statements, update crime systems, review live incidents and update victims and liaise with partner agencies on-the-go. Alongside body worn video and drones, these new technologies allow officers to work more effectively and offer them the support they need to protect the public and bring offenders to justice.

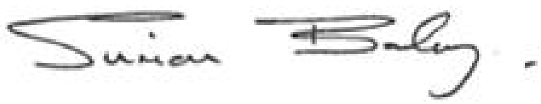
VISIBILITY IS STILL KEY

Despite the positive impact these services have had, both recognised and applauded by our communities, we know from our meetings and engagements with you that visibility is still a key issue. We continue to undertake

more visible preventative work - for example, working in partnership with Norfolk County Council to tackle the criminal exploitation of children while also targeting county line drug dealing and associated violence through our Operation Gravity initiative - but we realise that there is still more work to do.

WISE INVESTMENT

Since 2010, we have saved over £37 million from our policing budget. Much of this has been achieved through our collaboration with Suffolk Police and other partners, as well as through working more efficiently and effectively. We know you want policing to be more visible but with funding cuts year-on-year our numbers have also seen a reduction – there are now 100 fewer officers than in 2010. Raising our precept funding will help us to protect and possibly increase those numbers and, in addition, it will give us the ability to tackle new and emerging threats as we move forward.



Simon Bailey

Chief Constable, Norfolk Constabulary

Having considered the information provided by the Chief Constable, which of the following would you support?

NO INCREASE IN THE POLICING ELEMENT OF COUNCIL TAX

If there was no precept rise, there would be no opportunity for investment and we would also have to find significant savings equivalent to approximately 90 officers.

INCREASING THE POLICING ELEMENT OF COUNCIL TAX BY £8 A YEAR (15p a week)

This would not offer any opportunity for investment in officer numbers or technology, and would still require further savings to be found equivalent to at least 45 officers.

INCREASING THE POLICING ELEMENT OF COUNCIL TAX BY £16 A YEAR (31p a week)

This would maintain the rollout of our 2020 policing model, but only provide very limited opportunity to increase officer numbers or invest in technology.

INCREASING THE POLICING ELEMENT OF COUNCIL TAX BY £24 A YEAR (46p a week)

This would enable significant investment in the frontline with an increase of 40 officers to a total of 1,550. It would provide an opportunity to invest in technology too, helping to improve officer productivity by enabling them to stay out on patrol and work remotely. As well as having 21st century tools for 21st century policing, officers will be able to respond more quickly to more incidents and be more visible.

You can have your say using the survey form overleaf or by submitting your response online at www.norfolk-pcc.gov.uk.

Alternatively you can share your views using the following contact details:

Post: OPCCN, Building 8, Jubilee House, Falconers Chase, Wymondham, Norfolk, NR18 0WW
Telephone: 01953 424455 ***Email:*** TellLorne@norfolk.pnn.police.uk

OFFICE OF THE POLICE & CRIME COMMISSIONER FOR NORFOLK

PLEASE ANSWER THE FOLLOWING QUESTIONS:

Would you be prepared to pay more for policing in Norfolk ?

Without a precept rise, there will be no opportunity for investment and we will also have to find significant savings equivalent to approximately 90 officers.

YES ☐ NO ☐

If you answered yes, which of the following three options would you most favour? (Please tick only one)

☐ OPTION 1:

AN INCREASE IN THE POLICING ELEMENT OF COUNCIL TAX BY £8 A YEAR

(15p a week on a Band D property)

This would not offer any opportunity for investment in officer numbers or technology, and would still require further savings to be found equivalent to at least 45 officers.

Please turn over for more options

☐ OPTION 2:

INCREASE THE POLICING ELEMENT OF COUNCIL TAX BY £16 A YEAR

(31p a week on a Band D property)

This would maintain the rollout of our 2020 policing model, but only provide very limited opportunity to increase officer numbers or invest in technology.

☐ OPTION 3:

INCREASE THE POLICING ELEMENT OF COUNCIL TAX BY £24 A YEAR

(46p a week on a Band D property)

This would enable significant investment in the frontline with an increase of 40 officers to a total of 1,550. It would provide an opportunity to invest in technology too, helping to improve officer productivity by enabling them to stay out on patrol and work remotely. As well as having 21st century tools for 21st century policing, officers will be able to respond quicker to more incidents and be more visible.

Any other comments?

About you. Please tell us...

IN WHICH DISTRICT DO YOU LIVE? (PLEASE CIRCLE)

Breckland

Broadland

Great Yarmouth

King's Lynn and West Norfolk

North Norfolk

Norwich

South Norfolk

IF YOU WOULD LIKE TO RECEIVE UPDATES ON THE OUTCOME OF THIS CONSULTATION AND WORK OF YOUR PCC, PLEASE PROVIDE AN EMAIL ADDRESS.

By providing your email address you consent to the Office of the Police and Crime Commissioner for Norfolk (OPCCN) sending you a regular electronic newsletter with updates from your PCC. The OPCCN uses the MailChimp web-based marketing platform to produce and send these electronic news updates. The OPCCN will not share your email address with anyone else, and you can unsubscribe from the newsletter at any time.

Please return your completed form to OPCCN, Building 8, Jubilee House, Falconers Chase, Wymondham, Norfolk, NR18 0WW. If you require the information in this document in an alternative format, please contact the OPCCN by telephone on 01953 424455 or by email to opccn@norfolk.pnn.police.uk.

WOULD YOU PAY MORE COUNCIL TAX TO HELP FUND POLICING IN NORFOLK?

Police & Crime Commissioner, Lorne Green, is responsible for setting the budget for policing in Norfolk and, with it, how much you contribute through council tax.

Lorne will soon have to decide whether to increase or freeze the policing element of the council tax you pay. Before he makes that decision, he wants to know what the Norfolk public thinks.

HAVE YOUR SAY AT

WWW.NORFOLK-PCC.GOV.UK

before Wednesday 30 January 2019

Telephone: 01953 424455

Email: TellLorne@norfolk.pnn.police.uk

OFFICE OF THE POLICE & CRIME COMMISSIONER FOR NORFOLK

OFFICE OF THE POLICE & CRIME COMMISSIONER FOR NORFOLK

Would you pay more council tax for policing in Norfolk? PCC invites you to have your say.

02/01/18

Would you pay more council tax to help fund policing in Norfolk? That is the question being posed by the county's Police and Crime Commissioner (PCC).

PCC Lorne Green will soon have to decide whether to increase or freeze the policing element of council tax. First, he wants to know what the Norfolk public thinks and is asking how much people would be willing to pay.

"I want to hear from the people of Norfolk. Do you support keeping the policing part of the council tax at last year's level, or do you support a rise? And, if so, how much would you be prepared to pay?" asked Lorne.

"I have spent a great deal of time over the past year listening to Norfolk communities. They tell me not only do they want to be safe, they want to feel safe. Our constabulary has a responsibility to offer that assurance in our homes, on our streets and in our communities.

"At the same time I recognise the financial situation for policing continues to be extremely challenging. The nature of crime continues to change and is becoming more complex. Ahead of December's police funding announcement, I made representations to the Home Secretary, Policing Minister and Secretary to the Treasury to impress upon them just how serious the financial picture here in Norfolk is and the threat it poses to our policing service.

"It is important to be clear however that, before I even consider raising the policing element of the council tax, I have to be absolutely sure that the force continues to drive efficiencies at every turn, including from collaboration and partnership working.

"The Chief Constable has told me that a precept freeze would, inevitably, lead to police officer and staff reductions. He has also said that, were I to raise the council tax by the maximum amount of 46 pence a week, this would allow significant investment in the force, including the addition of 40 extra officers. I would urge people to listen to what the Chief Constable has to say before having their say.

"To help inform my budget decision, I would like to know your views. Some 56% of Norfolk's policing budget is funded by central government, meaning your council tax makes up the rest - so I want all Norfolk residents to have the opportunity to have their say.

“There are lots of ways you can share your views, not least through the survey on the Norfolk PCC website – www.norfolk-pcc.gov.uk. Please take the time to have your say as your views are important to me.”

Norfolk residents are being asked whether they would be prepared to pay more for policing in Norfolk. If they support an increase, taxpayers are being asked how much they would be prepared to pay. The options being presented are up to an extra 15 pence per week, an extra 31 pence per week or an extra 46 pence per week.

The implications for each option, based on a Band D property, are outlined as:

- Without a precept rise, there will be no opportunity for investment and the force will also have to find savings equivalent to approximately 90 officers.

- An increase of 15 pence a week (£8 a year) would not offer any opportunity for investment in officer numbers or technology, and would still require further savings to be found equivalent to at least 45 officers.

- An increase of 31 pence a week (£16 a year) would maintain the rollout of the 2020 policing model, but only provide very limited opportunity to increase officer numbers or invest in technology.

- An increase of 46 pence a week (£24 a year) would enable significant investment in the frontline, with an increase of 40 officers. It would provide an opportunity to invest in technology, enabling officers to spend more time on patrol, respond quicker and be more visible.

There will be an early chance to give your views when the PCC and Chief Constable Simon Bailey answer questions from the public at their first Q&A session of 2019. Lorne will host the event at The Forum in Norwich on Wednesday 9 January to give people the opportunity to share views, issues or concerns about crime and policing in their area.

The full consultation document and online survey can be found at www.norfolk-pcc.gov.uk. The consultation will run from 2 January until 30 January and people can also have their say by getting in contact with the Norfolk PCC office in the following ways:

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Hard copies of the consultation document and survey form are also available on request.

The PCC will take his budget proposals to the Norfolk Police and Crime Panel on 5 February 2018.

Do you need the Police? Visit the Norfolk Police website.
Call 101 or, in an emergency, 999.

OFFICE OF THE POLICE & CRIME COMMISSIONER FOR NORFOLK

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News // Read the news

02 JAN 2019

Would you pay more council tax for policing in Norfolk?

That is the question being posed by the county's Police and Crime Commissioner (PCC).

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"To help inform my budget decision, I would like to know your views. Some 56% of Norfolk's policing budget is funded by central government, meaning your council tax makes up the rest – so I want all Norfolk residents to have the opportunity to have their say.

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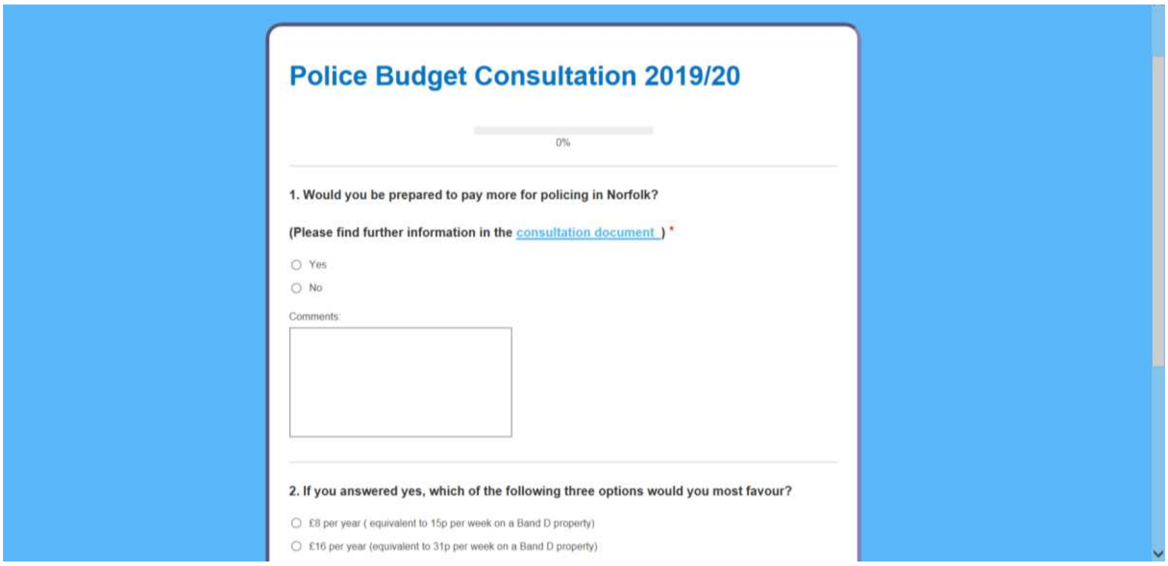

Police Budget Consultation 2019/20

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1. Would you be prepared to pay more for policing in Norfolk?

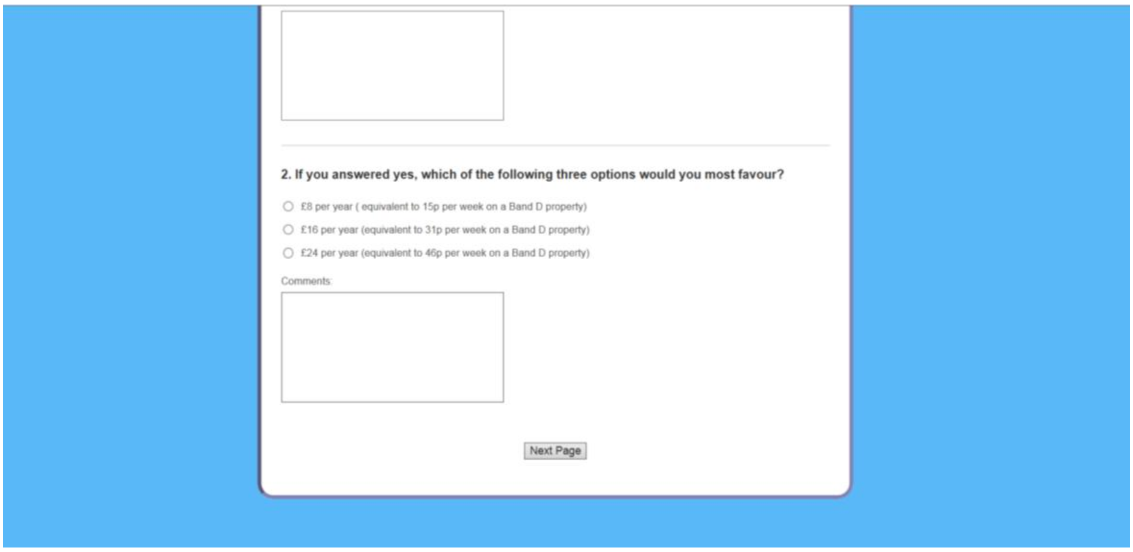
(Please find further information in the consultation document) *

- ○ Yes
- ○ No

Comments:

2. If you answered yes, which of the following three options would you most favour?

- ○ £8 per year (equivalent to 15p per week on a Band D property)
- ○ £16 per year (equivalent to 31p per week on a Band D property)



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- ○ £8 per year (equivalent to 15p per week on a Band D property)
- ○ £16 per year (equivalent to 31p per week on a Band D property)
- ○ £24 per year (equivalent to 46p per week on a Band D property)

Comments:

Next Page

OFFICE OF THE POLICE & CRIME COMMISSIONER FOR NORFOLK

Police Budget Consultation 2019/20

50%

2. Police Budget 2019/20

Page 2 of 2

3. What district in Norfolk do you live in? *

- ○ Breckland
- ○ Broadland
- ○ Great Yarmouth
- ○ North Norfolk
- ○ Norwich
- ○ South Norfolk
- ○ West Norfolk

Previous Page | Finish Survey

OFFICE OF THE POLICE & CRIME COMMISSIONER FOR NORFOLK

You have completed this survey!

THANK YOU FOR TAKING THE TIME TO TAKE PART IN THIS CONSULTATION.

The closing date for the consulation is: Wednesday 30th Januaray

If you would like to receive news updates on the outcome of this consultation and work of your PCC please follow this link.

Alternatively the results will be published in due course on the OPCCN website at: www.norfolk-pcc.gov.uk

OFFICE OF THE POLICE & CRIME COMMISSIONER FOR NORFOLK

REPORT TO THE NORFOLK POLICE AND CRIME PANEL
5 FEBRUARY 2019

PROPOSED PRECEPT FOR 2019/20

Executive Summary

This report outlines the budget and financial impact of the **four** 2019/20 precept options upon which the Police and Crime Commissioner has consulted.

1. To freeze council tax
2. To increase council tax by £8 per annum at Band D (3.46%).
3. To increase council tax by £12 per annum at Band D (6.95%)
4. To increase council tax by £24 per annum at Band D (10.45%)

NB Increases of £24.00 or more would trigger a local referendum.
62% of households in Norfolk are below Band D

The report also sets out the Capital Programme and the Medium Term Financial Plan (MTFP) 2019/20 to 2022/23, together with various Financial Strategies that must be published by the PCC.

A high level summary of the four options is set out in the tables below. See Appendix B (i) for more detail.

Option 1 – Freeze Council Tax

Council Tax Freeze	Budget 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000
Total Funding (Grant + Precept)	(157,711)	(158,873)	(161,321)	(163,854)
Net Revenue Budget before changes and savings	154,843	158,167	161,556	165,011
REVENUE DEFICIT BEFORE KNOWN CHANGES	**(2,868)**	**(707)**	**235**	**1,157**
Known / Expected Changes	10,460	10,418	8,562	9,382
Planned use of reserves	(628)	(454)	2,143	1,153
REVENUE DEFICIT BEFORE SAVINGS	**6,964**	**9,257**	**10,940**	**11,692**
Planned Savings	(1,993)	(2,533)	(2,764)	(2,925)
Savings to be identified	(4,971)	(6,723)	(8,176)	(8,767)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

This option

- would require a further £5m of savings to be found in 2019/20 (on top of the £2m identified).
- would, for 2019/20, result in a reduction, equivalent to 90 police officers, in the Local Policing Model (Norfolk 2020) announced in October 2017, and
- was not the financial planning assumption.

Over…

Option 2 – Increase Council Tax by £8 per annum (3.46%)

£8 (3.46%) Council Tax increase	Budget 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000
Total Funding (Grant + Precept)	(160,050)	(161,329)	(163,895)	(166,550)
Net Revenue Budget before changes and savings	154,843	158,167	161,556	165,011
REVENUE DEFICIT BEFORE KNOWN CHANGES	**(5,207)**	**(3,162)**	**(2,339)**	**(1,539)**
Known / Expected Changes	10,460	10,418	8,562	9,382
Planned use of reserves	(628)	(454)	2,143	1,153
REVENUE DEFICIT BEFORE SAVINGS	**4,624**	**6,801**	**8,365**	**8,996**
Planned Savings	(1,993)	(2,533)	(2,764)	(2,925)
Savings to be identified	(2,631)	(4,268)	(5,601)	(6,070)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

This option

- would require a further £2.6m of savings to be found in 2019/20 (on top of the £2m identified),
- would, for 2019/20, result in a reduction, equivalent to 45 police officers, in the Local Policing Model (Norfolk 2020) announced in October 2017,
- would increase the Band D council tax by £7.92 (15p a week) to £237.06, and
- was not the financial planning assumption.

Option 3 – Increase Council Tax by £16 per annum (6.95%)

£16 (6.95%) Council Tax increase	Budget 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000
Total Funding (Grant + Precept)	(162,416)	(163,757)	(166,387)	(169,107)
Net Revenue Budget before changes and savings	154,843	158,167	161,556	165,011
REVENUE DEFICIT BEFORE KNOWN CHANGES	**(7,573)**	**(5,590)**	**(4,832)**	**(4,097)**
Known / Expected Changes	10,460	10,418	8,562	9,382
Planned use of reserves	(628)	(454)	2,143	1,153
REVENUE DEFICIT BEFORE SAVINGS	**2,258**	**4,373**	**5,873**	**6,438**
Planned Savings	(1,993)	(2,533)	(2,764)	(2,925)
Savings to be identified	(265)	(1,840)	(3,109)	(3,513)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

This option would

- ensure the full roll out of the Norfolk 2020 policing model
- require a further £0.3m of savings to be found in 2019/20 (on top of the £2m identified), and
- increases the Band D council tax by £15.93 (31p a week) to £245.07.

Option 4 – Increase Council Tax by £24 per annum (10.45%)

£24 (10.45%) Council Tax increase	Budget 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000
Total Funding (Grant + Precept)	(164,782)	(166,213)	(168,935)	(171,748)
Net Revenue Budget before changes and savings	154,844	158,167	161,556	165,011
REVENUE DEFICIT BEFORE KNOWN CHANGES	**(9,939)**	**(8,046)**	**(7,379)**	**(6,738)**
Known / Expected Changes	12,560	11,818	9,962	10,782
Planned use of reserves	(628)	(454)	2,143	1,153
REVENUE DEFICIT BEFORE SAVINGS	**1,993**	**3,317**	**4,726**	**5,197**
Planned Savings	(1,993)	(2,533)	(2,764)	(2,925)
Savings to be identified	(0)	(784)	(1,962)	(2,272)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

This option would

- ensure the full roll out of the Norfolk 2020 policing model, provide for 40 extra police officers/detectives, and deliver further technology to police officers
- on the basis of the current prudent assumptions (post Brexit and post Spending Review), significantly reduce the medium term revenue deficit before savings to £5.2m with £2.9m already identified, and
- increase the Band D council tax by £23.94 (46p a week) to £253.08.

Recommendation

It is recommended that the Police and Crime Panel

a) notes the Revenue Budget and Capital Programme for 2019/20, the Medium Term Financial Plan 2019/20 to 2022/23 and the funding and financial strategies, and

b) endorses the Police and Crime Commissioner’s proposed precept for 2019/20, which the Panel will be notified of by 1 February 2019 (the statutory deadline).

CONTENTS

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 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 rolling 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 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 (good stewardship). These priorities (1, 6 and 7 below) are particularly important in the context of the budget and financial plan.

1.4 Following a full consultation with the public, partners and local businesses the PCC's Police and Crime Plan was published in March 2017 and includes seven strategic aims:

1. Increase visible policing
2. Support rural communities
3. Improve road safety
4. Prevent offending and rehabilitate offenders
5. Support victims and reduce vulnerability
6. Deliver a modern and innovative service
7. Good stewardship of PCC finances.

1.5 The Commissioner has had iterative discussions on the budget proposals with the Chief Constable, particularly in reference to the Local Policing Model (Norfolk 2020). 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.

1.6 In accordance with the requirements of the Police and Crime Panel (Precepts and Chief Constable Appointments) Regulations 2012, a precept is proposed for 2019/20.

2. The Funding Context

2.1 2019/20 will be the 10th year of austerity. In 2010/11 Norfolk's Police Grant was £100.9m and in 2018/19 it was £77.9m (on a like for like basis, excluding Legacy Council Tax Grants). This is a reduction of 23% in cash and 37% in real terms.

2.2 In 2010/11 Band D Council tax was £191.16, in 2018/19 it is £229.14, an increase (in cash terms) of 20% (2.2% average per annum).

2.3 Every year, cashable savings and efficiencies have been identified. The savings help to finance the demand pressures, cover inflation costs and balance the budget. To the end of 2017/18 Norfolk Constabulary has saved over £30m. In 2018/19 it will save another £3.8m and in the new MTFP period 2019/23 savings of £2.9m have been identified. This brings total savings to nearly £37m (annually recurring) over the last 10 years.

Provisional Grant Settlement

2.4 In recent years government has only issued one year funding settlements for PCCs, and force-by-force provisional detailed grant announcements are only made in December for funding commencing the following April. This creates a challenging planning environment particularly during an extended period of constrained central government funding (that has seen a 37% real terms cut for Norfolk since 2010/11).

2.5 The provisional central government grant settlement announcement was made on 13 December 2018. The proposals in this report are based on the provisional settlement, final local tax base figures and planning assumptions regarding future funding levels, on-going commitments and capital expenditure plans.

2.6 The table below provides a comparison between the 2019/20 provisional grant settlement and 2018/19 figures.

	2018/19	2019/20	Variance	
	£000	£000	£000	%
Police Main Grant	77,888	79,524	1,636	2.1%
Legacy Council Tax Grants	9,305	9,305	0	0.0%
Total all Grants	**87,193**	**88,828**	**1,636**	**1.9%**

2.7 In addition to the general grant funding outlined above, a specific grant of £1.564m is to be received to cover an element of the increased employer contributions for the police officer pension schemes (see paras 3.15-3.20).

2.8 The increase in core grant of £1.636m, along with the specific pension grant of £1.564m, does not fully fund the increase in employer contributions (£3.8m) to the police officer pension schemes imposed by the Treasury and therefore this increase in funding is not available to spend on PCC or force priorities.

2.9 In terms of precept, the written ministerial statement issued by the Home Secretary, the Rt Hon Sajid Javid MP, said "*We are also proposing to double the precept flexibility for locally accountable PCCs. Last year, we provided an additional £12 precept flexibility. This year, we propose giving PCCs the freedom to ask for an additional £2 a month in 2019/20, to increase their Band D precept by £24 in 2019/20 without the need to call a local referendum*".

2.10 The Home Secretary also said "*Last year, we indicated we would provide a similar funding settlement in 2019/20, if the police made progress in delivering further commercial savings, used mobile digital working and increased financial reserves* *transparency. The police have delivered on these conditions and are on track to deliver £120m in commercial and back office savings by 2020/21 and move towards a new commercial operating model.*"

2.11 In terms of future funding the Home Secretary said *"This settlement is the last before the next Spending Review, which will set long term police budgets and look at how resources are allocated fairly across police forces. The Home Office is grateful to the police for the good work they are doing to build the evidence base to support that work, and we will also want to see evidence that this year's investment is being well spent. In addition to working together to understand demand, we will be working with the police to present an ambitious plan to drive improved efficiency, productivity and effectiveness through the next Spending Review".*

2.12 The PCC and Chief Constable are committed to supporting this process. It is very clear that policing will need to demonstrate its efficiency (in operational policing as well as in procurement and the back office) if additional funding is to be unlocked by the Spending Review.

2.13 However, due to the uncertainty of Brexit and the Spending Review the assumptions for future years are a return to 2% precept limits and "cash flat" central grant funding.

Grant damping and the Police Funding Formula

2.14 Although some work on a new funding formula has been done the Policing Minister has indicated that plans to update the formula have been postponed and changes are not expected to be implemented until 2021/22 i.e. after the 2019 Spending Review.

2.15 As a result there were no changes to grant damping for 2019/20 and all PCCs' core Home Office grant funding has increased by 2.1% compared to 2018/19.

Council Tax Income

2.16 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 2018/19 surplus attributable to the PCC will be £1.202m receivable in 2019/20.

2.17 The provisional Council Tax base figures provided by the District Councils show an increase of 2%. The final figures, which are then notified to the Government, will not be available until the end of January 2019.

2.18 62% of properties in Norfolk are in Bands A to C, i.e. below Band D.

3. Budget and Precept 2019/20 and the Medium Term Financial Plan (MTFP)

3.1 The budget and MTFP are constructed as follows:-

- The base 2018/19 budget (funding current activity) is rolled forward and repriced. The full year effect of any 2018/19 part year initiatives/change programmes is added. (See the line 'Deficit/Surplus before Known Changes' in the tables in the Executive Summary and on pages 12 and 13).
- Known/Expected Changes are then added. These include statutory changes (e.g. increases in employer's national insurance or pension contributions), service developments (other inescapable base budget pressures), capital financing costs (of the new capital programme) and finally any growth required as a result of the financial planning and scrutiny processes.
- Use of reserves is then considered. Typically they will be used to finance short-life capital assets (over and above the budget provision), temporary revenue costs and invest to save initiatives.
- This results in a sub total - Revenue Deficit Before Savings
- Finally the savings identified are included to balance the budget.

3.2 The PCC's MTFP remains consistent. It provides for pay and price increases, growth to meet demand and service pressures, 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.

3.3 The following financial planning assumptions have been used.

	Budget 2019/20	**Forecast 2020/21**	**Forecast 2021/22**	**Forecast 2022/23**
Police main grant change	2.1%	0%	0%	0%
Legacy council tax grants change	0%	0%	0%	0%
Council taxbase change	2%	1.5%	1.5%	1.5%
Collection fund surplus	£1.202m	-	-	-
Pay awards - officers	2%	2%	2%	2%
Pay awards - staff	2%	2%	2%	2%
Non-pay inflation (average)	2%	2%	2%	2%

3.4 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 below.

3.5 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%	0.7
Precept	1.0%	0.7
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%	0.3

Service and Funding Pressures

A. Rising and Changing Demand

3.6 The operational backdrop to the budget/MTFP is a general increase in the crimes being recorded nationally and the Constabulary continuing to face significant 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 workforce.

3.7 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.

3.8 The police service continues to be the emergency service of the last resort. This is even more noticeable as funding for other public sector services is constrained, for example the ambulance service, and mental health services. As has been documented nationally, there is an impact in terms of increasing demand for the police service as a result of continuing reductions in the budgets of services delivered by our partners.

3.9 The uniform policing element of Norfolk's new policing model (Norfolk 2020) announced in October 2017 is virtually complete. Depending on the precept option agreed it will be possible to complete the roll out and even increase the number of police officers.

3.10 At maximum, the precept could provide for another 40 officers/detectives. If realised, this would mean that 139 fully warranted officers and 20 operational police staff will have replaced the 150 police community support officers whose roles were ended in March 2018.

3.11 For uniform policing, the challenge remains to increase visibility. Since austerity began there are now around 400 less officers in Norfolk. The PCC's strategic aim, in line with the recent public consultation, is to increase visibility. Again, at the maximum precept level, it should be possible to continue to develop (and renew) the mobile technology, including drones, used by officers which will ensure greater visibility and better efficiency of operations.

3.12 The demands on Norfolk Constabulary continue to rise. Although the Constabulary has succeeded in reducing calls for service by 11% by providing alternative channels such as an improved website, there has been a 7% increase in emergency calls [106,000 emergency calls compared with 99,000 the previous year].

3.13 The Norfolk 2020 proposals also fundamentally changed the safeguarding and investigations structures. The Constabulary continues the planning for the development of two state of the art premises, one in Swaffham and one in Broadland, which will host the specialist and detective resources to investigate the more complex and harmful crimes. This will improve the service to victims as well as the quality of investigations. Furthermore, by moving to two sites, the Constabulary avoids an additional cost of £1m year on year for additional detective resource to enable the current structures to continue effectively.

3.14 Norfolk, as with most Forces, has seen continued increases in serious sexual offences (6%)*, drugs supply offences (20%)* and domestic violence crimes (21%)*. However, the number of serious violence crimes has stabilised following the increases in previous years. 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 November 2018 compared with the previous year.

B. Pensions

3.15 The Police Officer Pension Schemes are “unfunded”. This means they are not backed by assets such as shares or other investments in the way the staff Local Government Pension Scheme is, rather they are ‘pay as you go’ schemes.

3.16 In simple terms, current officers pay pension contributions, and these are collected and paid to retired officers as benefits. The amount collected from current officers is not enough to meet the requirement for retired officer benefits and this leaves a “gap”.

3.17 Until 2015/16 the Treasury fully funded this “gap” by funding employer contributions through the main police grant, and by providing an additional top-up grant. Therefore, there was no funding required from precept. In 2015/16 the Treasury passed an element of this gap on to PCCs, by increasing employer contributions by 2.9% without providing any additional funding for this increase (equating to about £1m).

3.18 Recent proposals by the Treasury outlined an increase to employer contribution rates that would have seen a significant requirement for funding the “gap” (£417m nationally and £5.6m for Norfolk) being passed on to PCCs and Constabularies to find, as initially there was to be no corresponding increase in funding to cover this.

3.19 Following this announcement, the National Police Chiefs Council (NPCC) initiated a Judicial Review process, and there was significant lobbying by PCCs and Chief Constables to the Home Office and the Treasury that this approach would lead to a rapid national decrease in police officer numbers (in the region of 100 for Norfolk).

3.20 These counter arguments have been listened to. The national impact has been reduced from £417m to £302m, and for Norfolk from £5.6m to £3.8m. As outlined in the paragraphs above the specific pensions grant, and increased core grant (£3.2m in total) cover a significant amount of the additional £3.8m. However, some precept funding is required to finance the remaining £0.6m. The NPCC application for a Judicial Review has been withdrawn.

C. Pay

3.21 Government has lifted the public sector pay cap (historically 1%) and pay review bodies will be given instructions by the relative Secretary of State. Budgets will have to provide for the awards agreed and our assumption is that there will be pay rises of 2% each year. Non-pay inflation on average continues to be under 3%, and is forecast to remain around 2% (with the caveat that the progress of Brexit may impact on this), and all of this means additional costs, approaching £3m, in 2019/20. The underlying assumption in the MTFP is that if pay awards go beyond 2% then additional precept 'flexibility' will be required.

D. Maintaining investment in modernising technology

3.22 To remain as efficient as possible, the Constabulary needs to continue to invest in and refresh technology that keeps the policing model fit-for-purpose and able to meet increasing demand and the changing nature of crime. This investment, initially charged to capital account, is significant and has ultimately to be funded from the revenue budget. As stated above, efficiency will be key to a good Spending Review outcome.

The Options

3.23 The Tables below summarise the budget and forecasts for the four options on which the PCC consulted. Full details are in Appendices B(i), B(ii) and B(iii).

3.24 **Option 1** – Freeze Council Tax

Council Tax Freeze	Budget 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000
Total Funding (Grant + Precept)	(157,711)	(158,873)	(161,321)	(163,854)
Net Revenue Budget before changes and savings	154,843	158,167	161,556	165,011
REVENUE DEFICIT BEFORE KNOWN CHANGES	**(2,868)**	**(707)**	**235**	**1,157**
Known / Expected Changes	10,460	10,418	8,562	9,382
Planned use of reserves	(628)	(454)	2,143	1,153
REVENUE DEFICIT BEFORE SAVINGS	**6,964**	**9,257**	**10,940**	**11,692**
Planned Savings	(1,993)	(2,533)	(2,764)	(2,925)
Savings to be identified	(4,971)	(6,723)	(8,176)	(8,767)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

This option

- would require a further £5m of savings to be found in 2019/20 (on top of the £2m identified).
- would, for 2019/20, result in a reduction, equivalent to 90 police officers, in the Local Policing Model (Norfolk 2020) announced in October 2017, and
- was not the financial planning assumption.

3.25 **Option 2** – Increase Council Tax by £8 per annum (3.46%)

£8 (3.46%) Council Tax increase	Budget 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000
Total Funding (Grant + Precept)	(160,050)	(161,329)	(163,895)	(166,550)
Net Revenue Budget before changes and savings	154,843	158,167	161,556	165,011
REVENUE DEFICIT BEFORE KNOWN CHANGES	**(5,207)**	**(3,162)**	**(2,339)**	**(1,539)**
Known / Expected Changes	10,460	10,418	8,562	9,382
Planned use of reserves	(628)	(454)	2,143	1,153
REVENUE DEFICIT BEFORE SAVINGS	**4,624**	**6,801**	**8,365**	**8,996**
Planned Savings	(1,993)	(2,533)	(2,764)	(2,925)
Savings to be identified	(2,631)	(4,268)	(5,601)	(6,070)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

This option

- would require a further £2.6m of savings to be found in 2019/20 (on top of the £2m identified),
- would, for 2019/20, result in a reduction, equivalent to 45 police officers, in the Local Policing Model (Norfolk 2020) announced in October 2017,
- would increase the Band D council tax by £7.92 (15p a week) to £237.06, and
- was not the financial planning assumption.

3.26 **Option 3** – Increase Council Tax by £16 per annum (6.95%)

£16 (6.95%) Council Tax increase	**Budget 2019/20**	**Forecast 2020/21**	**Forecast 2021/22**	**Forecast 2022/23**
	£000	£000	£000	£000
Total Funding (Grant + Precept)	(162,416)	(163,757)	(166,387)	(169,107)
Net Revenue Budget before changes and savings	154,843	158,167	161,556	165,011
REVENUE DEFICIT BEFORE KNOWN CHANGES	**(7,573)**	**(5,590)**	**(4,832)**	**(4,097)**
Known / Expected Changes	10,460	10,418	8,562	9,382
Planned use of reserves	(628)	(454)	2,143	1,153
REVENUE DEFICIT BEFORE SAVINGS	**2,258**	**4,373**	**5,873**	**6,438**
Planned Savings	(1,993)	(2,533)	(2,764)	(2,925)
Savings to be identified	(265)	(1,840)	(3,109)	(3,513)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

This option would

- ensure the full roll out of the Norfolk 2020 policing model.
- require a further £0.3m of savings to be found in 2019/20 (on top of the £2m identified), and
- increases the Band D council tax by £15.93 (31p a week) to £245.07.

3.27 **Option 4** – Increase Council Tax by £24 per annum (10.45%)

£24 (10.45%) Council Tax increase	**Budget 2019/20**	**Forecast 2020/21**	**Forecast 2021/22**	**Forecast 2022/23**
	£000	£000	£000	£000
Total Funding (Grant + Precept)	(164,782)	(166,213)	(168,935)	(171,748)
Net Revenue Budget before changes and savings	154,844	158,167	161,556	165,011
REVENUE DEFICIT BEFORE KNOWN CHANGES	**(9,939)**	**(8,046)**	**(7,379)**	**(6,738)**
Known / Expected Changes	12,560	11,818	9,962	10,782
Planned use of reserves	(628)	(454)	2,143	1,153
REVENUE DEFICIT BEFORE SAVINGS	**1,993**	**3,317**	**4,726**	**5,197**
Planned Savings	(1,993)	(2,533)	(2,764)	(2,925)
Savings to be identified	(0)	(784)	(1,962)	(2,272)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

This option would

- ensure the full roll out of the Norfolk 2020 policing model and provide for 40 extra police officers/detectives, and deliver further technology to police officers,
- on the basis of the current prudent assumptions (post Brexit and post Spending Review), significantly reduce the medium term revenue deficit before savings to £5.2m with £2.9m already identified, and
- increase the Band D council tax by £23.94 (46p a week) to £253.08.

3.28 Appendix C shows a high level analysis of the Net Budget and Forecasts for the 4 options.

3.29 Details of the precept to be levied on the collection authorities are set out in Appendices H – K (Options 1 – 4).

The Service and Financial Planning Process

3.30 Since 2010, in response to the challenging financial situation as set out in section 2, the Constabulary has been running a successful Change Programme which will have delivered £34m (to 31 March 2019) since its inception. A significant portion of that programme has been delivered through collaboration with Suffolk Constabulary (see paragraph 4.1).

3.31 A joint (Norfolk and Suffolk) financial planning process has been on-going over recent months in accordance with an agreed timetable. An enhanced Service and Financial Planning process has been developed using Outcome Based Budgeting (OBB) principles. This is the third year that OBB has been used, and improvements to the process have been seen again this year including using information from the first Force Management Statement (FMS) for Norfolk. The FMS is a strategic document that examines current and future demand, and the resultant potential risks for the services provided by Norfolk Constabulary. Detailed business cases will now be prepared to realise these savings during 2019/20 and 2020/21.

3.32 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, as well as reviewing areas requiring more investment.

3.33 Heads of Department presented savings and investment proposals, and these were modelled against the impact on budgets and outcomes. 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 updated view of the Change Programme (see below) has also been developed.

3.34 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.

3.35 Given the levels of savings to be found it is clear that the Change Programme will need to be sustained over the medium-term so that savings can be driven out in a timely fashion to ensure budgets can be balanced and, equally importantly, reserves protected.

3.36 Alongside this activity, the Norfolk 2020 Review of Local Policing has continued. It is now focussing on the Contact and Control Room, different methods of public contact including improving self-service and ability to report various matters on-line. In addition, the 2020 review is looking at the investigation process to ensure that all the emerging policing tactics becoming available in a digital world are being harnessed to provide the best outcomes for victims. And finally, for this year, the 2020 review will be assessing the Safeguarding resources with a focus on domestic abuse crimes and incidents as this continues to be one of the highest demands the Constabulary faces.

Robustness of the Budget

3.37 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.

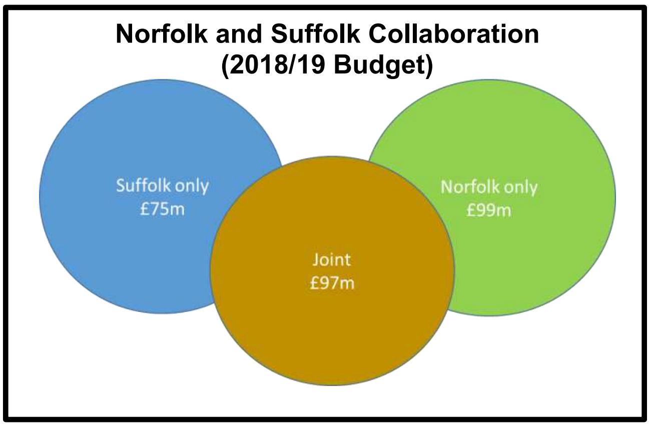
3.38 The comprehensive Service and Financial Planning process has resulted in the development of the various savings proposals and programmes. This has involved Chief Officers, Finance and the Programme Management Office (PMO) from both Norfolk and Suffolk Constabularies, maintaining financial clarity and consistency in financial plans.

3.39 Whilst there are always risks to delivering savings, controls will be maintained to ensure that the budgeted levels of savings are achieved as a minimum. Identified savings will be removed from budgets prior to allocation at the start of the financial year.

4. Collaboration and the Change Programme

4.1 Norfolk and Suffolk Constabularies have been collaborating for a decade. In the period to 2018/19, a large number of business cases have been implemented and total savings of £35.5m (£17.6m Suffolk and £17.9m Norfolk) have been found from collaboration.

4.2 The "joint" services budget is now over 1/3rd of the combined budget of both forces and stands at nearly £100m.



4.3 As part of the Service and Financial Planning process for 2019/20 to 2022/23, savings of £3.3m in 2019/20 have been identified from the collaborative units (Norfolk's share is £2.0m rising to £2.9m by 2022/23). These have been assessed in terms of risks and impact on outcomes using the improved Strategic Assessment Outcome Based Budgeting (OBB) model that uses OBB principles. Detailed business cases will now be prepared to realise these savings during 2019/20 and 2020/21.

4.4 As part of this process other areas have been identified and scoped to be developed into detailed business cases in the latter years of the plan (2021/22; 2022/23).

4.5 The forecast phasing for realising the savings is set out in Appendix B (iii).

Regional Collaboration

4.6 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. Many streams of work are being pursued and work is focussing on getting the 7 Forces to 'converge' their processes.

4.7 A business case has been developed and approved by PCCs and CCs to bring together a regional 7 Force Commercial Procurement Team. Governance and legal agreements are being finalised, and staff consultation has been completed. The regional team will be set up in stages over the next year or so. This team will make sure that all 7 forces go out to tender at the same time for the same goods and services for significant areas of spend and will also continue to oversee the development of the 7 Force commercial contractual "pipeline".

4.8 Modest savings are recognised in respect of 7 Force procurement savings in this MTFP. This is due to the fact that Norfolk and Suffolk have already driven out procurement savings over recent years, and the initial pipeline opportunities are limited at this stage, but further opportunities will arise beyond this MTFP.

5. Capital Programme and Financing 2019/23

5.1 The capital programme is a key element of strategic and financial planning. As highlighted over the last few years, due to funding constraints, the impact of capital spending, particularly the investment in "short-life" assets, has a significant impact on the revenue budget.

5.2 The revenue impact for long-term estates assets is spread over the years through the Minimum Revenue Provision (MRP) mechanism. Norfolk has previously used internal cash to fund estates spending, delaying external borrowing and the consequent interest payments.

5.3 As flagged in the last two budget reports, as the estate continues to be modernised, external borrowing is now required and interest payments have started to be made. A 40 year loan for £3.325m was taken out at the end of May 2018, at an interest rate of 2.67%. Further borrowing will be required over the period of the MTFP. More details are in Appendix G.

5.4 It is not prudent to borrow for short-life assets. These should be funded from capital grant, capital receipts, reserves allocated to fund capital schemes, or revenue budget contributions.

5.5 Since 2015/16 Home Office capital grant has reduced from over £1m to £0.5m. This means each year an additional £0.5m has had to be funded from reserves or the revenue budget.

5.6 In addition, the need to keep the force fit-for-purpose, using modern enabling technology and tackling more cyber related crime, has required increased investment in short-life assets. These assets (e.g. body worn video and mobile devices) then need replacing every 3 to 5 years. The capital programme therefore includes the routine refresh of the growing ICT / digital estate (personal computers and servers) as well as increasing investment in infrastructure e.g. in networks and servers to deal with the growth in requirements for investigating, transferring and storing large volumes of digital data.

5.7 There are also a number of key developments coming through national police ICT programmes. These include required investments in Windows 10/ Office 365; Automatic Number Plate Recognition (ANPR); National Law Enforcement Data Service; Home Office Biometrics and the Emergency Services Network (replacing Airwave).

5.8 Funding constraints described earlier in the report have meant there has been an increased reliance on reserves to fund short-life assets over the last few years. To continue to fund the replacement programme over the medium-term and beyond, and to protect reserve levels, additional revenue budget is required to be dedicated to the funding of short-life assets. This issue is expanded further in the review of adequacy of reserves later in this report (see Section 7) as well as the Capital and Reserves Strategies (see Appendix D and F).

5.9 It should also be noted that the hosting of ICT services in the “cloud” is being explored within policing and some of the new systems referred to in paragraph 5.6 will require it. At the point where services are provided from the “cloud” there will be additional revenue costs but there should be accompanying savings as the hardware (servers etc.) required in-force would be significantly reduced. Developments in this area will continue to be monitored and incorporated into future plans.

5.10 The proposed capital programme has been updated to 2022/23 and is set out in detail at Appendix D. The revenue consequences of the proposed capital programme have been fully taken into account in preparing the MTFP.

5.11 The table below summarises the Capital Programme 2019/23.

	2019/20	**2020/21**	**2021/22**	**2022/23**
	£000	**£000**	**£000**	**£000**
Estates schemes	9,888	6,300	4,435	2,000
ICT (Norfolk only)	1,622	1,176	610	500
Norfolk share of Joint ICT Schemes & Projects	2,908	2,812	1,584	1,367
Vehicles and Equipment	730	716	788	730
Total	**15,148**	**11,004**	**7,417**	**4,597**

Note: The 2019/20 total includes £3.8m estimated as requiring carry forward from 2018/19.

5.12 The Capital Programme for 2019/20 is arranged in 2 tables:-

Table A	Schemes or technical refresh programmes approved for immediate start in 2019/20.
Table B	Schemes requiring a business case or further report to the CC(s)/PCC(s) for approval.

5.13 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.
- Projects to help modernise the Force are set out in the capital programme including continuing to invest in efficiency enabling technology, both hardware and software, as the Constabulary embraces the rapid advance of digital solutions including the need to move and store significant amounts of data.
- 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

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

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Grant	546	500	500	500
Capital Receipts	1,600	750	1,625	250
Revenue	1,850	2,500	2,500	2,500
Use of Reserves	1,264	954	-1,643	-653
Internal/External Borrowing	9,888	6,300	4,435	2,000
Total	**15,148**	**11,004**	**7,417**	**4,597**

6. Annual Treasury Management Strategy 2019/20

6.1 Government regulations require the PCC to approve the investment and borrowing strategies and borrowing limits for 2019/20 prior to the start of the financial year. This is incorporated within an over-arching Treasury Management Strategy, which is attached at Appendix G.

Compliance with the Prudential Code

6.2 The level of borrowing for the Capital Programme needs to be based on capital investment plans that are affordable, prudent and sustainable. For the first time this year there is a requirement to publish a Capital Strategy and this is included as Appendix D.

6.3 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).

6.4 To demonstrate that the objectives of affordability, prudence and sustainability have been achieved, the Prudential Code requires 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 2019/20 are provided in Annex 1 to Appendix G. Progress against the indicators will be monitored throughout the year.

Minimum Revenue Provision (MRP)

6.5 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.

6.6 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 including the required provision. The MRP Statement, with a recommendation to the PCC for a change in the policy is set out in Annex 2 to Appendix G.

7. Use of Reserves

7.1 There has been much recent publicity around the reserves held by PCCs. Full details of all reserves held by PCCs have been provided to the Home Office. Nationally, as at the 31 March 2017, some £1.6bn of reserves were held and these are estimated to fall by 50% by March 2019. The Home Office has introduced some further regulations which require PCCs to be completely transparent on the reserves they hold and how they will be used over time. Details of contributions from reserves to fund revenue spending are included in Appendix B (ii) and the projected levels of reserves are detailed in Appendix F Annex 1.

7.2 This report has, historically, provided information on all the reserves held and how they are/will be used. 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 and total reserves at 6% to 7% of net budget. Norfolk's total reserves will reduce from £16.8m (11% budget) as at 31/3/18 to around £11.1m (6.8% of budget) by 31/3/21.

7.3 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.

- The Budget Support Reserve was being held as a contingency against future demand led pressures, and had also been used to deal with the funding pressures arising from austerity. In 2018/19 an element of this reserve will be used to fund revenue costs as outlined in the previous MTFP. The balance will then be reallocated to the Invest to Save Reserve and the Capital Financing and Efficiency Improvement Reserve. This reserve will therefore be fully used up.

- The Invest to Save Reserve provides funding for initiatives that will generate future savings and also provides funds to support the cost of change. The balance in this reserve will be increased by a reallocation from the Budget Support Reserve and then maintained at £1m for the rest of the MTFP as this will allow for future developments in the Change Programme and any resultant costs of change.
- The Capital Financing Reserve and Efficiency Improvement Reserve will be used to fund the short-life asset element of the Capital Programme. The reserve is used when the amount required for investment exceeds the budget available for this purpose. This is an important part of the funding strategy to ensure the constabulary is as efficient and productive as possible through continued investment in enabling technologies. The strategy is to “top-up” this reserve in the last 2 years of the plan to leave a balance to fund further investment beyond the planning period.

7.4 By the end of 2020/21 Reserves are forecast to be at minimum levels although they increase slightly in the following 2 years for the reasons outlined above.

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

8. **Risk and Efficiency**

8.1 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.

8.2 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 monitored by the Audit Committee.

8.3 The main risks that may impact upon the delivery of the 2019/20 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
- The impact of the capital programme on the revenue budget.

8.4 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. This process is undertaken through the Organisational Board chaired by the Deputy Chief Constables, and then reviewed by the Joint Chief Officer Team including the Chief Constables.

Efficiency

8.5 Implicit throughout all financial planning is the need to deliver efficiency and drive out savings. Business cases should, where possible, identify the Return on Investment. As detailed above, the Constabulary (and policing nationally) will need to evidence its efficiency to achieve a satisfactory Spending Review outcome. The external auditor issues a value for money (VFM) opinion and the Audit Committee does consider Her Majesty's Inspectorate of Constabulary and the Fire Service (HMICFRS) VFM profiles.

9. Chief Finance Officer's Section 25 Assurances

9.1 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 (paras 3.37 to 3.39), the adequacy of balances and reserves (Section 7 and Appendix F) and issues of risk (Section 8).

9.2 The PCC CFO confirms that he can provide all the required statutory assurances but highlights the uncertainty in the short term as a result of Brexit and the 2019 Spending Review. He points out that some additional spending in 2019/20 is one-off in nature and could be discontinued without the need to stop recruitment or incur redundancy costs.

10. Conclusion

10.1 This report outlines four options for the proposed precept and the medium term financial plan for the period 2019/20 to 2022/23.

10.2 Options 1 and 2 would require significant budget cuts over and above those outlined in this report. Options 3 and 4 present an opportunity to protect front line policing, protect reserves and, at the higher end, significantly enhance local policing resources.

11. Other Implications

11.1 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 2019/20

1. The changes in Government funding for 2019/20 are set out in the table below:

	2018/19	2019/20	Increase	
	£000	£000	£000	%
Police Main Grant	77,888	79,524	1,636	2.10%
Legacy Council Tax Grants	9,305	9,305	0	0.00%
Total all Grants	**87,193**	**88,829**	**1,636**	**1.88%**

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. The Provisional Settlement is predicated on PCCs increasing council tax up to the referendum trigger level of £24 per annum.

4. The Home Office has “re-allocated” (top sliced) £1,029m in total from the national grant pot (9% higher than the £945m in the prior year). The main areas of increase are top ups for National Crime Agency and Regional Organised Crime Units (£56m) and for strengthening the response to organised crime (£48m), offset by a reduction in Special Grant (£20m).

Appendix B (i)

Budget and Medium Term Financial Plan 2019/23

Option 1 – Council Tax Freeze

	Line	Budget 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23
		£000	£000	£000	£000
REVENUE FUNDING					
Home Office Grant	1	(79,524)	(79,524)	(79,524)	(79,524)
Legacy Council Tax Grants	2	(9,305)	(9,305)	(9,305)	(9,305)
Precept Income	3	(68,882)	(70,045)	(72,492)	(75,025)
TOTAL FUNDING	4	**(157,711)**	**(158,873)**	**(161,321)**	**(163,854)**
BASE REVENUE BUDGET INCLUDING INFLATION:					
Total Revenue Expenditure before savings	5	170,757	174,131	177,570	181,076
Revenue Funding of Capital Expenditure	6	2,618	2,618	2,618	2,618
Total Revenue Income inc Specific Grants	7	(18,532)	(18,582)	(18,633)	(18,684)
NET REVENUE BUDGET BEFORE KNOWN CHANGES AND SAVINGS	8	**154,843**	**158,167**	**161,556**	**165,011**
DEFICIT / (SURPLUS) BEFORE KNOWN CHANGES	9	**(2,868)**	**(707)**	**235**	**1,157**
Known / Expected Changes	10	10,460	10,418	8,562	9,382
Planned use of reserves	11	(628)	(454)	2,143	1,153
REVENUE DEFICIT BEFORE SAVINGS	12	**6,964**	**9,257**	**10,940**	**11,692**
Change Programme Savings	13	(1,993)	(2,533)	(2,764)	(2,925)
Savings to be identified	14	(4,971)	(6,723)	(8,176)	(8,767)
Total Cumulative Permanent Savings	15	**(6,963)**	**(9,257)**	**(10,940)**	**(11,692)**
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	16	**0**	**0**	**0**	**0**

Option 2 – Increase Council Tax by £8 per annum (3.46%)

	Line	Budget 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23
		£000	£000	£000	£000
REVENUE FUNDING					
Home Office Grant	1	(79,524)	(79,524)	(79,524)	(79,524)
Legacy Council Tax Grants	2	(9,305)	(9,305)	(9,305)	(9,305)
Precept Income	3	(71,222)	(72,500)	(75,067)	(77,722)
TOTAL FUNDING	4	**(160,050)**	**(161,329)**	**(163,895)**	**(166,550)**
BASE REVENUE BUDGET INCLUDING INFLATION:					
Total Revenue Expenditure before savings	5	170,757	174,131	177,570	181,076
Revenue Funding of Capital Expenditure	6	2,618	2,618	2,618	2,618
Total Revenue Income inc Specific Grants	7	(18,532)	(18,582)	(18,633)	(18,684)
NET REVENUE BUDGET BEFORE KNOWN CHANGES AND SAVINGS	8	**154,843**	**158,167**	**161,556**	**165,011**
DEFICIT / (SURPLUS) BEFORE KNOWN CHANGES	9	**(5,207)**	**(3,162)**	**(2,339)**	**(1,539)**
Known / Expected Changes	10	10,460	10,418	8,562	9,382
Planned use of reserves	11	(628)	(454)	2,143	1,153
REVENUE DEFICIT BEFORE SAVINGS	12	**4,624**	**6,801**	**8,365**	**8,996**
Change Programme Savings	13	(1,993)	(2,533)	(2,764)	(2,925)
Savings to be identified	14	(2,631)	(4,268)	(5,601)	(6,070)
Total Cumulative Permanent Savings	15	**(4,624)**	**(6,801)**	**(8,365)**	**(8,996)**
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	16	**0**	**0**	**0**	**0**

Appendix B (i)

Budget and Medium Term Financial Plan 2019/23

Option 3 – Increase Council Tax by £16 per annum (6.95%)

	Line	Budget 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23
		£000	£000	£000	£000
REVENUE FUNDING					
Home Office Grant	1	(79,524)	(79,524)	(79,524)	(79,524)
Legacy Council Tax Grants	2	(9,305)	(9,305)	(9,305)	(9,305)
Precept Income	3	(73,587)	(74,929)	(77,559)	(80,279)
TOTAL FUNDING	4	**(162,416)**	**(163,757)**	**(166,387)**	**(169,107)**
BASE REVENUE BUDGET INCLUDING INFLATION:					
Total Revenue Expenditure before savings	5	170,757	174,131	177,570	181,076
Revenue Funding of Capital Expenditure	6	2,618	2,618	2,618	2,618
Total Revenue Income inc Specific Grants	7	(18,532)	(18,582)	(18,633)	(18,684)
NET REVENUE BUDGET BEFORE KNOWN CHANGES AND SAVINGS	8	**154,843**	**158,167**	**161,556**	**165,011**
DEFICIT / (SURPLUS) BEFORE KNOWN CHANGES	9	**(7,573)**	**(5,590)**	**(4,832)**	**(4,097)**
Known / Expected Changes	10	10,460	10,418	8,562	9,382
Planned use of reserves	11	(628)	(454)	2,143	1,153
REVENUE DEFICIT BEFORE SAVINGS	12	**2,258**	**4,373**	**5,873**	**6,438**
Change Programme Savings	13	(1,993)	(2,533)	(2,764)	(2,925)
Savings to be identified	14	(265)	(1,840)	(3,109)	(3,513)
Total Cumulative Permanent Savings	15	**(2,258)**	**(4,373)**	**(5,873)**	**(6,438)**
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	16	**0**	**0**	**0**	**0**

Option 4 – Increase Council Tax by £24 per annum (10.45%)

	Line	Budget 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23
		£000	£000	£000	£000
REVENUE FUNDING					
Home Office Grant	1	(79,524)	(79,524)	(79,524)	(79,524)
Legacy Council Tax Grants	2	(9,305)	(9,305)	(9,305)	(9,305)
Precept Income	3	(75,953)	(77,384)	(80,106)	(82,920)
TOTAL FUNDING	4	**(164,782)**	**(166,213)**	**(168,935)**	**(171,748)**
BASE REVENUE BUDGET INCLUDING INFLATION:					
Total Revenue Expenditure before savings	5	170,758	174,131	177,570	181,076
Revenue Funding of Capital Expenditure	6	2,618	2,618	2,618	2,618
Total Revenue Income inc Specific Grants	7	(18,532)	(18,582)	(18,633)	(18,684)
NET REVENUE BUDGET BEFORE KNOWN CHANGES AND SAVINGS	8	**154,844**	**158,167**	**161,556**	**165,011**
DEFICIT / (SURPLUS) BEFORE KNOWN CHANGES	9	**(9,939)**	**(8,046)**	**(7,379)**	**(6,738)**
Known / Expected Changes	10	12,560	11,818	9,962	10,782
Planned use of reserves	11	(628)	(454)	2,143	1,153
REVENUE DEFICIT BEFORE SAVINGS	12	**1,993**	**3,317**	**4,726**	**5,197**
Change Programme Savings	13	(1,993)	(2,533)	(2,764)	(2,925)
Savings to be identified	14	(0)	(784)	(1,962)	(2,272)
Total Cumulative Permanent Savings	15	**(1,993)**	**(3,317)**	**(4,726)**	**(5,197)**
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	16	**0**	**0**	**0**	**0**

Appendix B(ii)

Analysis of Known/Expected Changes
Option 1, 2 and 3

	Line	Budget 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000
STATUTORY CHANGES					
Rent and Housing Allowance Reductions	1	(200)	(400)	(500)	(600)
Variation in Bank Holiday Numbers (7 in 2018/19 then 8, 9, 11, 9)	2	125	250	500	250
Police Officer Pensions	3	3,800	3,800	3,800	3,800
Local Government Pension Scheme increase	4	130	130	130	130
Firearms Licensing Income	5		(114)	(108)	(74)
TOTAL STATUTORY CHANGES	7	**3,855**	**3,666**	**3,822**	**3,506**
INVESTMENT					
Officer uplift to maintain 2020 rollout	8	800	800	800	800
Challenge Panel Process Review - Pay	9	929	929	929	929
TOTAL INVESTMENT		**1,729**	**1,729**	**1,729**	**1,729**
SERVICE DEVELOPMENTS					
Motor Insurance	10	300	300	300	300
7 Force Collaboration Contribution	11	169			
FME contract	12	233	233	233	233
Forensics Contract	13	143	143	143	143
Contractual Risk in respect of Airwave	14		285	285	285
Police Education Qualification Framework (PEQF) - mobilisation costs	15		91		
PEQF - DHEP training costs	16		140	240	300
PEQF - L&D Resource	17		354	607	607
Digital Mobile Workflow solution	18		171	171	171
Digital Asset Management System / Digital Evidence Transfer System	19		239	239	239
National Enabler Programme (Office 365) Business Change	20	114			
Challenge Panel Process Review - Non Pay	21	743	743	743	743
Transitional cost in respect of Local Policing Review (Norfolk 2020)	22	394			
Commissioning Plan	23	200			
Temporary Pay growth	24	900			
TOTAL SERVICE DEVELOPMENTS	25	**3,196**	**2,699**	**2,961**	**3,021**
CAPITAL FINANCING					
Capital Programme Funding	26	1,263	954	(1,643)	(653)
Investment in modernising technology	27		650	650	650
Minimum Revenue Provision	28		6	177	195
Interest	29	417	713	866	934
TOTAL CAPITAL FINANCING	30	**1,680**	**2,323**	**50**	**1,126**
Total Changes Before Reserve Movement Adjustments	31	**10,460**	**10,418**	**8,562**	**9,382**
CONTRIBUTION TO RESERVES					
Efficiency Reserve	32	800			
Loan Repayment Reserve	33	598	500	500	500
CONTRIBUTIONS FROM RESERVES					
7 Force Collaboration Contribution	34	(169)			
Transitional cost in respect of Norfolk 2020 model	35	(394)			
Capital Programme Funding	36	(1,263)	(954)	1,643	653
Financing Commissioning Plan	37	(200)			
NET RESERVE MOVEMENTS	38	**(628)**	**(454)**	**2,143**	**1,153**
Total Known / Expected Changes (net of reserve movements)	39	**9,832**	**9,963**	**10,705**	**10,535**

Appendix B(ii)

Analysis of Known/Expected Changes
Option 4

	Line	Budget 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000
STATUTORY CHANGES					
Rent and Housing Allowance Reductions	1	(200)	(400)	(500)	(600)
Variation in Bank Holiday Numbers (7 in 2018/19 then 8, 9, 11, 9)	2	125	250	500	250
Police Officer Pensions	3	3,800	3,800	3,800	3,800
Local Government Pension Scheme increase	4	130	130	130	130
Firearms Licensing Income	5		(114)	(108)	(74)
TOTAL STATUTORY CHANGES	7	**3,855**	**3,666**	**3,822**	**3,506**
INVESTMENT					
Officer uplift to maintain 2020 rollout	8	800	800	800	800
Officer uplift to increase visible policing	9	1,400	1,400	1,400	1,400
Officer uplift - equipment	10	300			
Drones	11	200			
Moonshot infrastructure	12	200			
Challenge Panel Process Review - Pay	13	929	929	929	929
TOTAL INVESTMENT		**3,829**	**3,129**	**3,129**	**3,129**
SERVICE DEVELOPMENTS					
Motor Insurance	14	300	300	300	300
7 Force Collaboration Contribution	15	169			
FME contract	16	233	233	233	233
Forensics Contract	17	143	143	143	143
Contractual Risk in respect of Airwave	18		285	285	285
Police Education Qualification Framework (PEQF) - mobilisation costs	19		91		
PEQF - DHEP training costs	20		140	240	300
PEQF - L&D Resource	21		354	607	607
Digital Mobile Workflow solution	22		171	171	171
Digital Asset Management System / Digital Evidence Transfer System	23		239	239	239
National Enabler Programme (Office 365) Business Change	24	114			
Challenge Panel Process Review - Non Pay	25	743	743	743	743
Transitional cost in respect of Local Policing Review (Norfolk 2020)	26	394			
Commissioning Plan	27	200			
Temporary Pay growth	28	900			
TOTAL SERVICE DEVELOPMENTS	29	**3,196**	**2,699**	**2,961**	**3,021**
CAPITAL FINANCING					
Capital Programme Funding	30	1,263	954	(1,643)	(653)
Investment in modernising technology	31		650	650	650
Minimum Revenue Provision	32		6	177	195
Interest	33	417	713	866	934
TOTAL CAPITAL FINANCING	34	**1,680**	**2,323**	**50**	**1,126**
Total Changes Before Reserve Movement Adjustments	35	**12,560**	**11,818**	**9,962**	**10,782**
CONTRIBUTION TO RESERVES					
Efficiency Reserve	36	800			
Loan Repayment Reserve	37	598	500	500	500
CONTRIBUTION FROM RESERVES					
7 Force Collaboration Contribution	38	(169)			
Transitional cost in respect of Norfolk 2020 model	39	(394)			
Capital Programme Funding	40	(1,263)	(954)	1,643	653
Financing Commissioning Plan	41	(200)			
NET RESERVE MOVEMENTS	42	**(628)**	**(454)**	**2,143**	**1,153**
Total Known / Expected Changes (net of reserve movements)	43	**11,932**	**11,363**	**12,105**	**11,935**

Appendix B(iii)

Analysis of Savings

		Line	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000
Change and Efficiency Savings:						
	As per Challenge Panels:					
	Additional impact of 2018/19 OBB savings in 2019/20	1	630	643	655	669
	Pay (including inflation)	2	737	891	909	927
	Non-Pay	3	575	575	575	575
	Telematics	4	51	124	124	124
	7 Force Procurement pipeline	5		100	200	300
	Future Savings for further scoping	6		200	300	330
Total Change and Efficiency Savings		7	**1,993**	**2,533**	**2,764**	**2,925**
TOTAL PERMANENT SAVINGS AGAINST 2018/19 BASE		8	**1,993**	**2,533**	**2,764**	**2,925**

Appendix C

High Level Analysis of the Net Budget

Option 1 – Council Tax Freeze

Year	OPCCN	PCC's Commissioning	Chief Constable	Capital Financing	Use of Reserves	Net Budget
	£000	£000	£000	£000	£000	£000
2018/19	978	1,228	151,620	4,204	(3,475)	**154,555**
2019/20	997	1,228	151,815	4,299	(628)	**157,711**
			above assumes savings of £4,971k to be found			
2020/21	1,017	1,028	152,341	4,942	(454)	**158,873**
			above includes savings of £6,723k to be found			
2021/22	1,037	1,028	154,445	2,668	2,143	**161,321**
			above includes savings of £8,176k to be found			
2022/23	1,057	1,028	156,871	3,745	1,153	**163,854**
			above includes savings of £8,767k to be found			

Option 2 – Increase Council Tax by £8 per annum (3.46%)

Year	OPCCN	PCC's Commissioning	Chief Constable	Capital Financing	Use of Reserves	Net Budget
	£000	£000	£000	£000	£000	£000
2018/19	978	1,228	151,620	4,204	(3,475)	**154,555**
2019/20	997	1,228	154,154	4,299	(628)	**160,050**
			above includes savings of £2,631k to be found			
2020/21	1,017	1,028	154,797	4,942	(454)	**161,329**
			above includes savings of £4,268k to be found			
2021/22	1,037	1,028	157,019	2,668	2,143	**163,895**
			above includes savings of £5,601k to be found			
2022/23	1,057	1,028	159,567	3,745	1,153	**166,550**
			above includes savings of £6,070k to be found			

Continued overleaf..

Appendix C

High Level Analysis of the Net Budget 2019/20

Option 3 – Increase Council Tax by £16 per annum (6.95%)

Year	OPCCN	PCC's Commissioning	Chief Constable	Capital Financing	Use of Reserves	Net Budget
	£000	£000	£000	£000	£000	£000
2018/19	978	1,228	151,620	4,204	(3,475)	**154,555**
2019/20	997	1,228	156,520	4,299	(628)	**162,416**
			above includes savings of £265k to be found			
2020/21	1,017	1,028	157,225	4,942	(454)	**163,757**
			above includes savings of £1,840k to be found			
2021/22	1,037	1,028	159,511	2,668	2,143	**166,387**
			above includes savings of £3,109k to be found			
2022/23	1,057	1,028	162,125	3,745	1,153	**169,107**
			above includes savings of £3,513k to be found			

Option 4 – Increase Council Tax by £24 per annum (10.45%)

Year	OPCCN	PCC's Commissioning	Chief Constable	Capital Financing	Use of Reserves	Net Budget
	£000	£000	£000	£000	£000	£000
2018/19	978	1,228	151,620	4,204	(3,475)	**154,555**
2019/20	997	1,228	158,887	4,299	(628)	**164,782**
2020/21	1,017	1,028	159,681	4,942	(454)	**166,213**
			above includes savings of £784k to be found			
2021/22	1,037	1,028	162,058	2,668	2,143	**168,935**
			above includes savings of £1,962k to be found			
2022/23	1,057	1,028	164,766	3,745	1,153	**171,748**
			above includes savings of £2,272k to be found			

Appendix D

Police and Crime Commissioner for Norfolk
Capital Strategy

1. Introduction

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires the production of a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with desired outcomes and take account of good stewardship, value for money, prudence, sustainability and affordability.

1.2 The Capital Strategy is a key document for the Police and Crime Commissioner (PCC) for Norfolk and the Chief Constable of Norfolk and throughout this document the term Norfolk is used to refer to the activities of both the PCC and the Constabulary.

1.3 The capital strategy sets out the long-term context in which capital expenditure and investment decisions are made in Norfolk and gives due consideration to both risk and reward and the impact on the achievement of priority outcomes.

2. Objectives

2.1 The key objectives of the Capital Strategy are to:

- Provide a framework that requires new capital expenditure to be robustly evaluated, ensuring that capital investment delivers value for money and is made in accordance with the Norfolk corporate, financial and asset management strategies, matching their visions, values and priorities.
- Set out how Norfolk identifies, prioritises, delivers and manages capital programmes and projects. This includes outlying the governance framework from initiation to post project review.
- Ensure that the full life cost of capital expenditure is evaluated, including borrowing, maintenance and disposal costs.
- Ensure that all capital expenditure and related borrowing cash flows are affordable, prudent and sustainable.
- Identify the resources available for capital investment over the planning period and any restrictions on borrowing or funding.

3. Governance

3.1 There is a robust joint governance model that sits over the Norfolk only, Suffolk only and collaborated departments. Please refer to Annex A.

3.2 Project boards are initiated for all appropriate projects and are run on Prince 2 project models. These individual projects report into Portfolio Boards each with a Senior Responsible Officer. Reports from these boards are then taken to the Organisational Board chaired by the Deputy Chief Constables of Norfolk and Suffolk (DCCs) and attended by each Head of Department.

3.3 Sitting above this is the Strategic Planning and Monitoring meeting, again chaired by the DCCs but with a smaller membership (DCCs, Chief Finance Officers of Norfolk and Suffolk, Head of Finance, Head of Strategic Business Operational Services, Director of ICT, Director of HR). This group acts as monitor of the Change Programme including delivery of all projects, as a gateway for new projects emerging in year, ensures appropriate resources are agreed in line with priorities and ensures targets set within the Medium-Term Financial Plan (MTFP) are met.

3.4 Reports as appropriate are then taken to the Joint Chief Officer Team (JCOT) meeting that consists of all Chief Officers from Norfolk and Suffolk, as well as the Head of Finance, Director of HR, Director of ICT and Head of Strategic Business Operational Services.

4. Strategies and Plans

4.1 The PCC produces his Police and Crime Plan every four years. The current version covers the period 2016 to 2020.

4.2 To support this plan a number of interrelated strategies and plans are in place, such as the Medium Term Financial Plan (MTFP), which includes the medium term Capital Programme, Capital Strategy, and the Treasury Management Strategy.

4.3 The operation of all these strategies and plans is underpinned by the Scheme of Governance which includes the Financial Regulations & Contract Standing Orders.

4.4 In addition there are four key strategies that support the capital strategy.

- The current Estates Strategy runs from 2016–2020 and sets out the PCC vision for the Norfolk Estate. Specifically the strategy is designed to ensure delivery of a fit-for-purpose estates portfolio that is responsive to current and future needs, effectively supports meeting strategic objectives and service delivery and which is focussed on improving public confidence and reducing costs. The strategy will support the aim of maximising resources for front line policing and delivery of effectiveness, efficiency and value for money.

- There is a Joint Transport Strategy for Norfolk and Suffolk that covers the period 2015-2019. Vehicle replacement and procurement forms part of this strategy. It contributes to force performance by ensuring fleet acquisition and replacement with an optimum use of all resources. The strategy promotes continuous modernisation and service improvements ensuring local and national strategies are considered to drive forward a cost effective and efficient service.

- Similarly there is a Joint ICT Strategy for 2017-2020 for Norfolk and Suffolk that aims to modernise the delivery of police services across both counties, as well as emphasising availability, security and resilience of information assets and systems. It seeks to enable modern working practices and technologies to help shape future service provision, from a modern and efficient technology base, fulfilling the objective of working at work in the same way as we work from home.

4.5 In addition, there is a 7 Force collaboration programme in the east of England consisting of Norfolk, Suffolk, Bedfordshire, Cambridgeshire, Hertfordshire, Kent and Essex. In support of the 7 Force strategic collaboration programme, the ICT departments of the 3 clusters collaborate to design and implement a converged ICT capability with a long term aim of allowing implementation of a Single ICT capability to deliver all ICT services across the 7 counties. This will in time allow police officers and staff to work out of any police premises across the 7 counties using a single log on.

5. Capital Budget Setting including evaluation and prioritisation

5.1 The capital programme is developed through the Service and Financial Challenge governance process that uses Outcome Based Budgeting principles. The Challenge Panels are informed by the Force Management Statement (FMS) that forecast demand changes for the Constabulary over the next four years, any gaps that exist regarding capacity or capability and the steps being taken to improve. To ensure a consistent approach is taken across all areas of the organisation, several thematic Challenge Panels are also considered to ensure any cross cutting issues are picked up.

5.2 As part of this process there is a Capital Challenge Panel meeting with the Director of ICT, Head of Estates and Head of Transport to review the most significant elements of the programme and ensure these are consistent with the current strategies and policies previously mentioned. The panel consists of the Deputy Chief Constables (DCCs) of Norfolk and Suffolk, Chief Finance Officers (CFOs) from Norfolk and Suffolk, Head of Joint Finance and the Head of Joint Strategic Business Operational Services.

5.3 Heads of all other departments put forward smaller capital bids in their submission documents and these are also assessed by a Challenge Panel with the same membership as above.

5.4 Following the panel processes as described above there is a further review and prioritisation meeting of the DCCs and CFOs before a draft capital programme, along with the relevant agreed funding, is presented to the Chief Constables. Following this the Police and Crime Commissioners review, amend if necessary, and finally approve the programmes.

Identification and Prioritisation

5.5 The identification process is initiated through the Challenge Panel as described above and that runs from August to October each calendar year, as a result of which bids are made by department heads and a draft capital programme is produced.

5.6 The capital project proposals are prioritised with reference to a business case and considered against the following 9 factors in order of priority;

- Mandation – unavoidable projects i.e. mandated or contractually obliged,
- Strategic Alignment – alignment to the Police and Crime Plan i.e. 7 strategic aims,

- Interdependencies – with other projects and or strategies and plans,
- Risk – of not doing the project and whether this is within tolerable levels,
- Cashable savings – the return on investment (ROI) measured against the initial outlay,
- Deferability / Complexity –The level of resource commitment, internally and externally and time critical deadlines,
- Non Cashable benefits –other benefits such as service improvements and efficiency / productivity benefits
- Mitigation – future cost avoidance

5.7 This draft programme is then challenged and prioritised by the Board before a final programme is put before Chief Officers and Police and Crime Commissioners for final sign off.

Evaluation

5.8 To evaluate the successful outcomes of the capital projects a post project review is carried out. The depth of this review is proportionate to the project and benefits set out in the initial Business Case and Project Initiation Documentation.

5.9 The review is in effect a check on performance against the original proposal. It focusses on outcomes achieved, the extent to which benefits are being realised and actual costs against forecasts. This enables lessons learned information to inform improvements in the overall process

Collaboration and cost sharing

5.10 The Estates capital programme for Norfolk is a sovereign programme and is line with the current Norfolk Estates Strategy. Spend on vehicles is also funded on a non-collaborated basis, although the strategy for investment is in line with the Joint Transport Strategy. ICT related spend on refreshing desktops and monitors in Norfolk premises is also Norfolk only spend.

5.11 Most other spend including the replacement of ICT infrastructure, the purchase of short-life assets such as Body Worn video, mobile devices, and high tech crime kit is funded collaboratively with Suffolk on the ratio of Net Revenue Budget (currently 57% Norfolk : 43% Suffolk).

Implementation and Monitoring

5.12 Monitoring of the capital programme in year is undertaken monthly, using commitment information to understand the projected outturn of the programme. This view is then incorporated into the monthly revenue and capital monitoring reports that are presented to the Chief Constables and the Police and Crime Commissioners. These reports give information about under or over-spends against the revenue and capital budgets, and take into account the revenue implications of capital spending.

5.13 Progress on capital schemes is reported on a quarterly basis to a Capital Planning and Monitoring meeting.

5.14 In addition, following approval of the capital programme a Project Manager is identified for each key project. The Project Manager is responsible for managing implementation and delivering against the project objectives. The Project Manager will produce the project plan for approval. Progress against the plan is reported to the quarterly meeting and monitored through monthly highlight reporting. Overall monitoring of specific programme risks is also undertaken.

5.15 Detailed implementation work is assigned to key individuals and overseen by the specific Project Boards as per the governance model set out in Appendix A.

6. Capital Funding

6.1 All capital expenditure has to be funded through the Police Fund, either through income received in the year or through the use of reserves. For the purposes of this Strategy, the term “funding” relates to the use of current income or reserves to fund capital expenditure. The term “Financing” relates to how the asset is to be paid for, e.g. internal borrowing (cash balances) or external borrowing.

6.2 The capital programme needs to be fully funded over the life of the MTFP and more information on this is set out below. As part of the MTFP process it is ensured that a balance of the funding sources is used to ensure an adequate and sustainable level of reserves remain at the end of the planning period. More information on this is set out in the Reserves Strategy. This is a strong financial indicator of the affordability and sustainability of the capital programme.

6.3 Capital can be funded from a number of different sources, including:

6.4 Capital receipts - Capital receipts are generated from the sale of existing capital assets. Proceeds from the sale of assets are either used to fund capital expenditure in the year of receipt or set aside in a Useable Capital Receipts Reserve to fund capital expenditure arising in future years.
This method of funding has been utilised significantly in previous years, as the PCC has disposed of non-operational or surplus property, such as police houses or traditional police stations. As the PCC’s estate has been downsized and modernised, the opportunity to fund capital expenditure using capital receipts will be significantly diminished beyond the medium term.

6.5 Capital grant - Direct funding from government capital grants has been a principal source of funding in previous years. Non-specific government capital grants have been made available through a formula-driven allocation. However, these grants are now significantly lower than in prior years, with the expectation that this will diminish to negligible levels by the end of the current (MTFP) as the government has looked to reduce direct capital funding.

Where relevant and appropriate the PCC will aim to secure specific grant opportunities, either from Central Government or through collaboration with public sector or other partnership bodies.

6.6 Reserves - Income surpluses that has been set aside from previous years and transferred to reserves can be used to fund capital expenditure. The Capital

Financing and Efficiency Improvement Reserve is specifically used to ring fence funding for future capital expenditure.

6.7 As reserves have been consumed in recent years to pump prime efficiency initiatives and the funding of investment in short-life assets, the level of reserves now available to fund future capital expenditure is diminished and will not be a major source of funding going forward, unless reserves are replenished through the accumulation of future revenue surpluses.

6.8 As capital expenditure has been internally financed in previous years from internal cash balances, not all PCC reserves are cash-backed. Therefore, even though reserves are used to fund capital expenditure, there may still be a need to finance the expenditure using external borrowing.

6.9 Direct revenue funding - In the budget delegated to the Chief Constable there is an element of the current revenue budget that funds capital expenditure, any amount funded in this way will be charged directly to the Police Fund.

6.10 In order to maintain the level of investment required in short-life assets to ensure the most efficient service possible, over the life of the MTFP this source of funding is being significantly increased due to the reduction of availability of the other funding sources described above.

6.11 Minimum Revenue Provision (MRP) - Accumulated capital expenditure not funded using the methods is called the Capital Financing Requirement (CFR). This balance is funded using MRP, there are a number of MRP options available to fund this balance, the method adopted by the PCC is the Asset Life Method, where the associated asset is funded using either equal Instalments or an annuity basis.

6.12 MRP is charged against the Police Fund annually and effectively reduces the CFR. The PCC has adopted a position where only long life assets are funded using MRP. As other funding sources dry up, it is possible that short-life assets may be funded using this method. However in the longer-term funding short life assets in this way is not sustainable and there will be a greater need to fund from direct revenue as outlined above.

6.13 MRP is also the funding method for assets financed via Private Finance Initiatives (PFI) or Finance Leases. MRP is calculated as equivalent to the principal repayment of the PFI or lease liability in the year.

7. Capital Financing and Borrowing

Capital expenditure can be financed in the following ways:

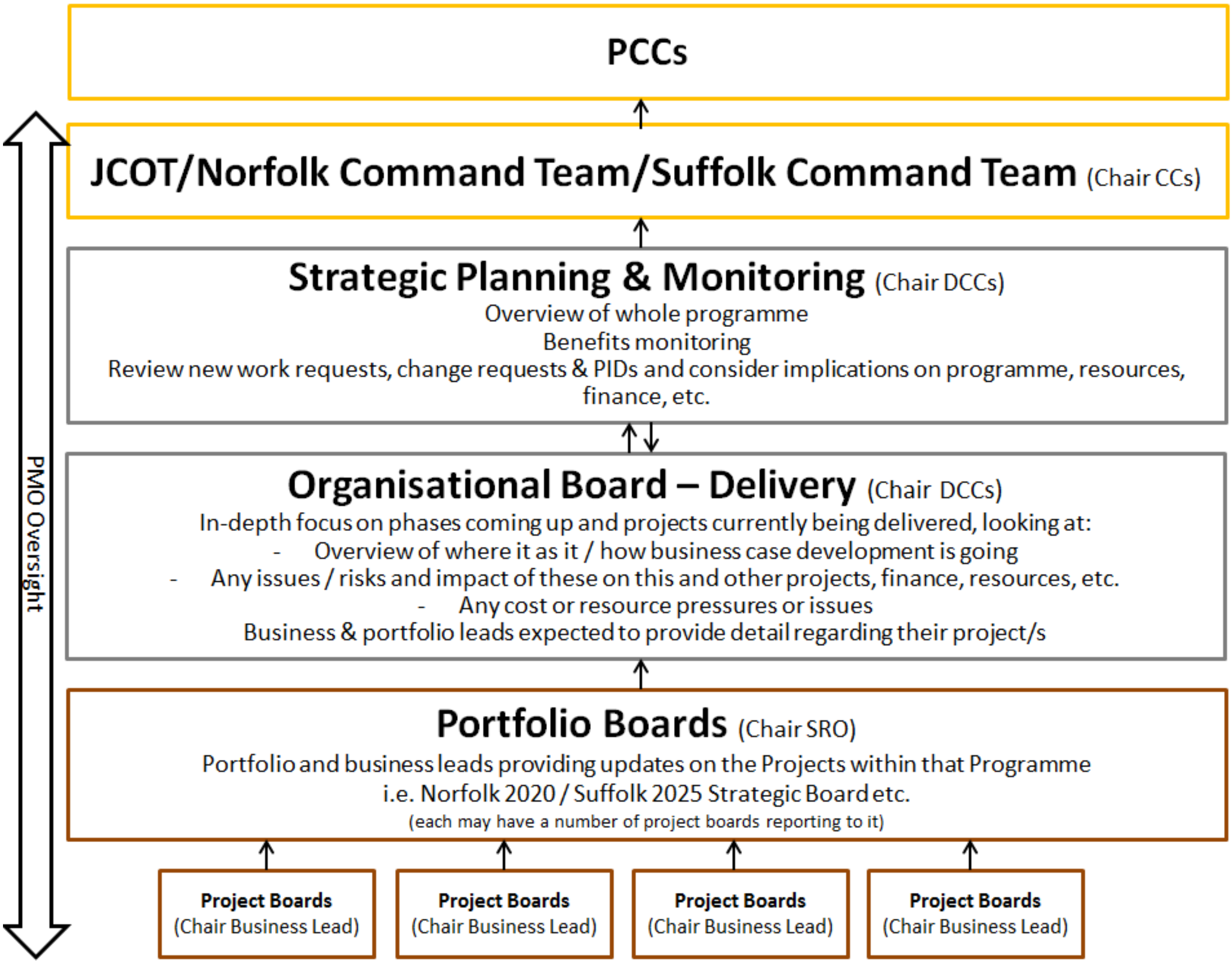
7.1 Capital grants received or capital receipts from asset sales, generate cash balances and these are directly used to finance capital expenditure. Where in-year revenue funding of capital takes place, financing is made from in-year income sources.

7.2 Internal borrowing. Where cash or investment balances have increased over a period of time as reserves have accumulated, these balances can be used to finance the acquisition of assets. This decision is often made as the investment returns received are normally lower than the interest that would be payable if the capital expenditure is financed using external borrowing.

7.3 External borrowing. This method is used to finance capital expenditure where the above options are unavailable. External borrowing can be obtained from a number of sources:

- PFI – Historically major infrastructure projects have been financed using PFI arrangements. Private finance is secured to finance the schemes which form part of a Public/Private Partnership. Norfolk PCC have used this method to finance the OCC at Wymondham and several Police Investigation Centres (PICs) across Norfolk and Suffolk.
- Nationally, new PFI arrangements have significantly reduced in number and the Government have now withdrawn support for future schemes.
- Leases – Some assets have been secured using leasing arrangements. With the advent of Prudential borrowing, leases are less popular as they are generally an expensive financing route. However, with the introduction of a new leasing Standard (IFRS 16), property lease liabilities will be brought onto the balance sheet and form part of the CFR and thus attract MRP.
- Prudential borrowing – with the introduction of the Prudential Code, local government bodies have been able to secure external borrowing on favourable terms, providing there borrowing is prudent, affordable and sustainable. Unfunded long term assets are therefore primarily financed using this route. External borrowing is principally sourced from the Public Works Loans Board (PWLB), where finance is available on fixed or variable rates over varying terms and repayable on a maturity or an annuity basis. The PCC is expected to source significant new PWLB finance throughout the medium-term. The PCC is also able to take advantage of the Certainty Rate (20 basis point discount) available where projected future borrowing requirements are indicated to the PWLB in advance.

Governance model



Appendix E

Capital Programme 2019/23

CAPITAL - NORFOLK - 2019/20 - 2022/23								
PROJECT	Slippage assumed in 2018/19 monitoring	Additional Requirement in 2019/20	2019-20 Total Requirement		2020-21	2021-22	2022-23	4 Year Total
			Table A	Table B				
Attleborough - New Build at Fire Station	687,570	0	687,570		0	0	0	687,570
Gorleston - SNT at Fire Station.		0			0	200,000	0	200,000
Gt Yarmouth - Remodelling.		0			0	2,000,000	2,000,000	4,000,000
Bethel Street - Remodelling.		0			0	2,235,000	0	2,235,000
2020 East Hub Broadland Gate		3,900,000	3,900,000		6,000,000	0	0	13,800,000
2020 West Hub Swaffham	2,693,556	2,306,444	5,000,000		300,000	0	0	7,606,444
Wymondham OCC - Car park Works - Phase 2 -Self funded from Revenue Plan B car park charges.		300,000	300,000					600,000
Total Estates - Norfolk Only	**3,381,126**	**6,506,444**	**9,887,570**	**0**	**6,300,000**	**4,435,000**	**2,000,000**	**29,129,014**
ICT Replacements - Desktop Services	137,400	720,000	857,400		571,800	580,000	0	2,729,200
ICT Replacements - Monitors		190,400	190,400		0	0	0	380,800
Thin Client Replacement		74,000	74,000		74,000	0	0	222,000
Satellite Navigation					30,000	30,000	0	60,000
ICT - Additional 2020 Requirements		500,000	500,000		500,000			1,500,000
ESN (Emergency Services Network)		0			0	0	500,000	500,000
Total ICT - Norfolk Only	**137,400**	**1,484,400**	**1,621,800**	**0**	**1,175,800**	**610,000**	**500,000**	**5,392,000**
Vehicle Replacement Programme		730,000	730,000		716,000	788,000	730,000	3,694,000
Total Vehicle Replacements - Norfolk Only	**0**	**730,000**	**730,000**		**716,000**	**788,000**	**730,000**	**3,694,000**
Total Norfolk Only	**3,518,526**	**8,720,844**	**12,239,370**	**-**	**8,191,800**	**5,833,000**	**3,230,000**	**29,494,170**
Norfolk Share of Replacement Schemes	-	682,481	682,481	-	720,753	938,169	972,848	3,314,250
Norfolk Capital Programme	3,518,526	9,403,325	12,921,851	-	8,912,553	6,771,169	4,202,848	32,808,420
Norfolk Share of Joint Projects	261,357	1,964,243	-	2,225,600	2,091,815	645,725	394,440	5,357,579
Total Norfolk Capital Programme	**3,779,883**	**11,367,568**	**12,921,851**	**2,225,600**	**11,004,368**	**7,416,893**	**4,597,288**	**38,165,999**

Capital Financing is shown in the Tables at paragraph 5.14

Appendix E

Capital Programme 2019/23 (contd.)

PROJECT	Slippage assumed in 2018/19 monitoring	Additional Requirement in 2019/20	2019-20 Total Requirement		2020-21	2021-22	2022-23	4 Year total
Joint ICT Replacement Schemes:			**Table A**	**Table B**				
ICT Tech Refresh:								
Joint ICT Replacements - Servers		453,000	453,000		604,000	692,000	254,000	2,003,000
ICT Replacements - Voice Data Network		559,335	559,335		475,479	818,910	367,750	2,221,474
ICT Tech refresh total	**0**	**1,012,335**	**1,012,335**	**0**	**1,079,479**	**1,510,910**	**621,750**	**4,224,474**
Mobile Telephony:								
Mobile Telephony - Recruitment Support		50,000	50,000		50,000			100,000
Mobile Device Replacement Programme		50,500	50,500		50,500	50,500	50,500	202,000
Total Mobile Telephony	**0**	**100,500**	**100,500**	**0**	**100,500**	**50,500**	**50,500**	**302,000**
Body Worn Video:								
BWV Replacement		34,500	34,500		34,500	34,500	34,500	138,000
BWV Device Refresh		50,000	50,000		50,000	50,000	1,000,000	1,150,000
Total Body Worn Video	**0**	**84,500**	**84,500**	**0**	**84,500**	**84,500**	**1,034,500**	**1,288,000**
ICT Replacement Schemes	**0**	**1,197,335**	**1,197,335**	**0**	**1,264,479**	**1,645,910**	**1,706,750**	**5,814,474**
Joint Projects Subject to Business Case:								
Video Conferencing	**0**	**150,000**	**0**	**150,000**				**150,000**
Airbox/Mosaic - 3 yr capital programme - 7F requirement	**0**	**38,440**	**0**	**38,440**	**15,450**	**15,450**	**0**	**69,340**
HTCU:								
Joint HTCU growth		280,000		280,000	280,000	280,000	280,000	1,120,000
Joint HTCU refresh				0		280,000	280,000	560,000
Halesworth DFU ICT Infrastructure		195,000		195,000				195,000
High Tech Crime Unit - Annual Replacement Programme		0		0	132,000	132,000	132,000	396,000
XRY Kiosks - PSN Compliance		85,000		85,000				85,000
XRY Phase 2 (DFU restructure)					50,000			50,000
Total HTCU	**0**	**560,000**	**0**	**560,000**	**462,000**	**692,000**	**692,000**	**2,406,000**

Appendix E

Capital Programme 2019/23 (Contd.)

PROJECT	Slippage assumed in 2018/19 monitoring	Additional Requirement in 2019/20	2019-20 Total Requirement		2020-21	2021-22	2022-23	4 Year total
ANPR Cameras	**0**	**500,000**	**0**	**500,000**	**0**	**0**	**0**	**500,000**
Digital Portfolio								
DAMS / DETS		600,000		600,000	0	0	0	600,000
Digital Public Contact		200,000		200,000	100,000	0	0	300,000
SOH (part of digital public contact programme)		0		0	139,000	0	0	139,000
Digital Portfolio Initiatives	196,248	600,000		796,248	200,000			996,248
Total Digital Portfolio	**196,248**	**1,400,000**	**0**	**1,596,248**	**439,000**	**0**	**0**	**2,035,248**
Protective Services:								
Radio Frequency Capacity		0		0	237,000	0	0	237,000
Taser Upgrade - X2s		342,000		342,000	286,400	425,400	0	1,053,800
Glock Handgun Upgrade		115,600		115,600	0	0	0	115,600
SCIT Collision Scene Scanners		0		0	30,000	0	0	30,000
Total Protective Services:	**0**	**457,600**	**0**	**457,600**	**553,400**	**425,400**	**0**	**1,436,400**
Other Projects:								
Genie Clearcore - Phase 3		0		0	100,000			100,000
Project Server		20,000		20,000				20,000
DMS Upgrade		100,000		100,000				100,000
ERP Athena Interface		40,000		40,000				40,000
Learning Management System		80,000		80,000				80,000
Skills Module ERP		100,000		100,000	100,000			200,000
ERP				0	2,000,000			2,000,000
GIS Replacement	84,772			84,772				84,772
Digital Recording / Streaming	177,501			177,501				177,501
Total Other Projects	**262,273**	**340,000**	**0**	**602,273**	**2,200,000**	**0**	**0**	**2,802,273**
Total Joint Capital Programme	**458,521**	**4,643,375**	**1,197,335**	**3,904,561**	**4,934,329**	**2,778,760**	**2,398,750**	**15,213,735**
Joint Capital Projects - Norfolk	261,357	2,646,724	682,481	2,225,600	2,812,568	1,583,893	1,367,288	8,671,829
Joint Capital Projects - Suffolk	197,164	1,996,651	514,854	1,678,961	2,121,761	1,194,867	1,031,463	6,541,906
	458,521	**4,643,375**	**1,197,335**	**3,904,561**	**4,934,329**	**2,778,760**	**2,398,750**	**15,213,735**

Appendix F

Police and Crime Commissioner for Norfolk
Reserves Strategy (Budget and Medium-Term Financial Plan 2019/23)

1. It is important to consider the PCC's reserves at the same time as the budget to ensure that resources are available to fund spending at a level commensurate with the needs of the PCC and Constabulary. Forecasting cash flows and balances over the budget period ensures efficient and effective financial management and avoids unnecessary finance charges. Reserves are held for either general purposes (such as working capital or fall-back to cover exceptional unforeseen circumstances), or earmarked for specific purposes. The PCC complies with the definition of reserves contained within the Chartered Institute of Public Finance and Accountancy (CIPFA) Accounting Code of Practice.

2. The Strategy requires an annual review of reserves to be undertaken and reported to the PCC. This reflects guidance on reserves issued by CIPFA. The most recent guidance requires an annual review of reserves to be considered by the PCC as part of good practice in the management of financial reserves and balances.

3. The minimum prudent level of reserves is a matter of judgement rather than prescription. Neither CIPFA nor statute sets a minimum level of reserves. In determining the level and type of reserves, the PCC has to take into account relevant local circumstances and the advice of the Chief Constable and CFO in making a reasoned judgement on the appropriate level of its reserves.

4. In order to assess the adequacy of reserves when setting the budget, the PCC, on the advice of the CFO, should take account of the strategic, operational and financial risks facing the organisation. This assessment of risk should include external risks, as well as internal risks, for example the ability to deliver planned efficiency savings.

5. The ultimate use of reserves will be dependent upon both the timing and level of costs and savings over the period of the Medium Term Financial Plan (MTFP).

General Reserve

Assessment of adequacy

6. The **General Reserve** is held to enable the PCC to manage unplanned or unforeseen events. In forming a view on the level of General Reserve, account is taken of the level of financial control within the organisation and comparisons with similar bodies. Also taken into account is the risk of unforeseen expenditure occurring, particularly major operations, risk of failure to deliver the savings programme and sensitivity analysis of changes in assumptions included in the MTFP.

7. Within the MTFP appropriate estimates are made of a number of key items including provision for pay and price rises, as well as a forecast of interest movements. In addition, prudent assumptions are made for the forecast capital programme and for future capital receipts. These estimates and assumptions also take into account the general financial climate.

8. Norfolk Constabulary has generally managed its demand led pressures within its budget envelope year on year, and where appropriate has used earmarked reserves to meet additional significant demand pressures and unbudgeted costs.

9. Since 2010 the constabulary has a proven track record of delivering efficiency savings year on year that will total £34m by the end of 2018/19.

10. In the MTFP detailed savings plans are in place for 2019/20 and 2020/21, with additional savings contained in a high level scoped programme for 2021/22 and 2022/23. These are outlined in the main budget report. The Chief Constable and PCC are committed to continuing to deliver efficiency and productivity gains in each year of the MTFP.

11. The General Reserve is being maintained at £4.475m (approx. 3% of budget) for the duration of the MTFP. This is a prudent and adequate amount to hold as a General Reserve. This is shown in Appendix 1.

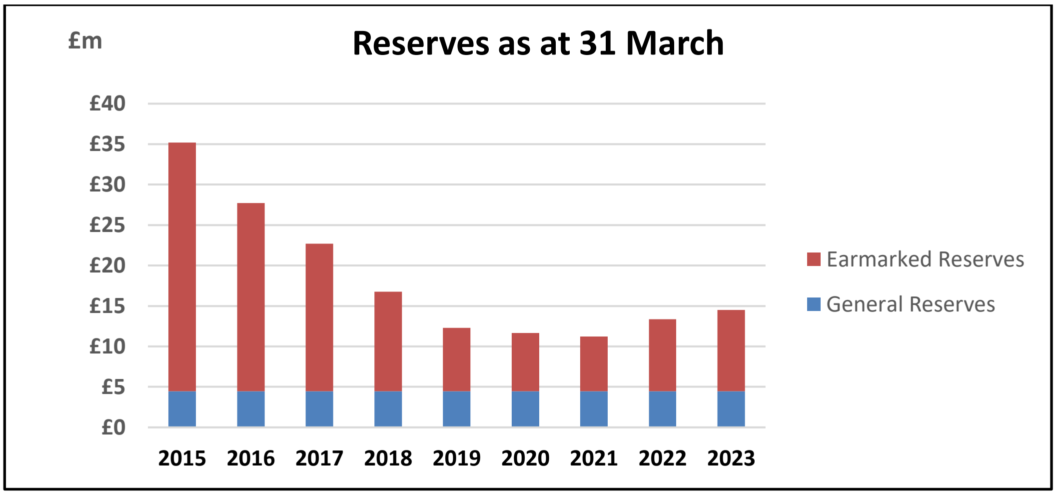
12. A call on the general reserve, particularly for major operations, would likely also result in an application to the Home Office for Special Policing Grant (SPG).

Earmarked Reserves

13. These are reserves that are held for a specific purpose, whereby funds are set aside for future use when the need arises.

14. The level of reserves and predicted movement for these reserves is set out in the attached Annex 1. All reserve levels are reviewed annually.

The diagram below illustrates how the reserves are being used over the medium term.



15. The purpose and strategy for each reserve is set out below.

16. The **Budget Support Reserve** was being held as a contingency against future demand led pressures, and had also been used to deal with the funding pressures arising from austerity. In 2018/19 an element of this reserve will be used to fund revenue costs as outlined in the previous MTFP. The balance will then be reallocated to the Invest to Save Reserve and the Capital Financing and Efficiency Improvement Reserve. This reserve will therefore be fully used up.

17. The **Invest to Save Reserve** provides funding for initiatives that will generate future savings and also provides funds to support the cost of change. The balance in this reserve will be increased by a reallocation from the Budget Support Reserve and then maintained at £1m for the rest of the MTFP as this will allow for future developments in the Change Programme and any resultant costs of change.

18. The **Capital Financing Reserve and Efficiency Improvement Reserve** is used to fund the short-life asset element of the Capital Programme. The reserve is used when the amount required for investment exceeds the budget available for this purpose. This is an important part of the funding strategy to ensure the constabulary is as efficient and productive as possible through continued investment in enabling technologies. The strategy is to "top-up" this reserve in the last 2 years of the plan to leave a balance to fund further investment beyond the planning period.

19. The **Maturity Loan Repayment Reserve** is a new reserve that is being established to build up the balances required to repay legacy maturity loans (i.e. interest only loans) the bulk of which were taken out in the 1990s. The total repayable is £12.8m. The first loan to be repaid is due in 2022/23 the final loan is due in 2056. Refinancing is being considered for £3.3m of this borrowing. The remainder will be funded through building up the reserve initially with contributions each year in the region of £0.5m. The balance in this reserve is therefore not available for any other use.

20. The **Insurance Reserve** is being held as a contingency against future increases in premiums and/or increases in the value of assessed insurance liabilities. The reserve and also the provision within the accounts are actuarially assessed by external advisors.

21. The **PCC Reserve** is made up from previous underspends against the budgets of the Office of the Police and Crime Commissioner and the commissioning budget. The reserve is used to smooth commissioning spending over the MTFP period and to commission additional services in the community or delivered by the Constabulary, for instance in supporting victims.

22. The **Safety Camera Reserve** is held on behalf of the Safety Camera Partnership (comprising the PCC, Chief Constable and Norfolk County Council). Income is dependent upon the number of Speed Awareness courses delivered. The use is reviewed and agreed at the Safety Camera Oversight Board. **N.B.** This reserve is not included in Annex 1 as it is a partnership reserve not solely available to the PCC. It is included in Annex 2.

Compliance with Home Office guidance on reserves

23. On 31st March 2018 the Minister for Policing and the Fire Service published guidance on the information that each PCC must publish in terms of reserves. One of the key requirements is that the information on each reserve should make clear how much of the funding falls into each of the following three categories:

- Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan
- Funding for specific projects and programmes beyond the current planning period
- As a general contingency to meet other expenditure needs held in accordance with sound principles of good financial management

This information is provided in Annex 2 which analyses the forecast balance on 31st March 2019 over the above headings.

Conclusion

24. The current policy, as demonstrated in the MTFP, is to maintain revenue general balances close to an operational guideline level of approximately 3% of the net annual revenue budget. Across the police service this is the generally accepted level which is appropriate as the prolonged period of austerity continues.

25. The earmarked reserves have been described and the strategy is to keep these for specific purposes and maintain at around 5% to 6% of the net revenue budget (excluding the Safety Camera Reserve), to ensure taxpayers' money is being used as efficiently as possible. The strategy is to contribute to the Capital Financing Reserve to keep this at an appropriate level through the Plan.

26. Having considered the levels of reserves included in the MTFP, and acknowledging the Chief Constable's commitment to work with the PCC to balance the budget over the period of the MTFP and taking account of the approach to managing financial risk described in the report, the CFO's advice is that there will be adequate general and earmarked reserves to continue the smooth running of the PCC and Constabulary's finances over the medium term financial planning period.

FORECAST MOVEMENTS IN GENERAL AND EARMARKED RESERVES 2018/19 to 2022/23

ANNEX 1

PROJECTION OF RESERVES LEVELS:	**Total General Reserve**	**Budget Support Reserve**	**Invest to Save Reserve**	**Capital Financing and Efficiency Improvement Reserve**	**Maturity Loan Repayment Reserve**	**Insurance Reserve**	**PCC Reserve**	**Total Earmarked Reserve**	**Total General and Earmarked Reserves**
	£000	£000	£000	£000	£000	£000	£000	£000	£000
31/03/2018 Actual	**4,475**	**4,196**		**5,822**		**786**	**1,504**	**12,308**	**16,783**
Proposed Changes 2018/19:									
Transfer from Budget Support to Invest to Save		(2,796)	2,796						
Transfer from Budget Support to Capital Financing		(957)		957					
Transfer to Revenue from Reserves		(443)	(167)	(2,134)				**(2,744)**	
Transfer to Revenue from Reserves (Norfolk 2020)			(1,032)					**(1,032)**	
Cost of Change			(516)					**(516)**	
Financing Commissioning Plan							(200)	**(200)**	
31/03/2019 Forecast	**4,475**	**0**	**1,081**	**4,645**		**786**	**1,304**	**7,816**	**12,291**
Proposed Changes 2019/20:									
Transfer to Revenue from Reserves			(169)	(1,263)				**(1,432)**	
Transfer to Revenue from Reserves (Norfolk 2020)			(394)					**(394)**	
Contribution to Reserves			482	318	598		(200)	**1,198**	
31/03/2020 Forecast	**4,475**	**0**	**1,000**	**3,700**	**598**	**786**	**1,104**	**7,188**	**11,663**
Proposed Changes 2020/21:									
Transfer to Revenue from Reserves				(954)				**(954)**	
Contribution to Reserves					500			**500**	
31/03/2021 Forecast	**4,475**	**0**	**1,000**	**2,745**	**1,098**	**786**	**1,104**	**6,734**	**11,209**
Proposed Changes 2021/22:									
Contribution to Reserves				1,643	500			**2,143**	
31/03/2022 Forecast	**4,475**	**0**	**1,000**	**4,388**	**1,598**	**786**	**1,104**	**8,877**	**13,352**
Proposed Changes 2022/23:									
Contribution to Reserves				653	500			**1,153**	
31/03/2023 Forecast	**4,475**	**0**	**1,000**	**5,041**	**2,098**	**786**	**1,104**	**10,029**	**14,504**

Excludes Safety Camera Partnership Reserve

FORECAST RESERVES AT 31/03/2019 ANALYSED BY HOME OFFICE CATEGORIES

ANNEX 2

	Forecast Balance as at 31.3.19	Funding for projects & programmes over the period of the current MTFP	New contributions during the life of the MTFP	Existing Funding for projects & programmes beyond 2022/23	General Contingency
	£m	£m		£m	£m
General Reserve	4.475	0.000	0.000	0.000	4.475
Earmarked Reserves:					
Budget Support Reserve	0.000	0.000			
Invest to Save Reserve	1.081	0.563	-0.482	1.000	
Capital Financing Reserve	4.645	2.218	-2.614	5.041	
Maturity loan repayment reserve	0.000	0.000	-2.021	2.021	
Insurance Reserve	0.786				0.786
PCC Reserve	1.304	0.200			1.104
Total Earmarked Reserves	7.816	2.981	-5.117	8.062	1.890
Safety Camera Reserve	1.786	0.000	0.000	1.786	
Total Reserves	14.077	2.981	-5.117	9.848	6.365

Appendix G

The Office of the Police and Crime Commissioner for Norfolk
Annual Investment and Treasury Management Strategy Statement 2019/20

1. Background

1.1 The PCC is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the PCC's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2 The second main function of the treasury management service is the funding of the PCC's capital plans. These capital plans provide a guide to the borrowing need of the PCC, essentially the longer-term cash flow planning, to ensure that the PCC can meet his capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet PCC risk or cost objectives.

1.3 The contribution the treasury management function makes to the PCC is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.4 CIPFA defines treasury management as:

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

1.5 Revised reporting is required for the 2019/20 reporting cycle due to revisions of the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

1.6 This PCC has not engaged in any commercial investments and has no non-treasury investments.

2. Reporting requirements

Capital Strategy

2.1 The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019/20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

2.2 The aim of this capital strategy is to ensure that the PCC fully understands the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

2.3 The Capital Strategy will be published separately but is included within the PCC's Budget and MTFP report.

Treasury Management reporting

2.4 The PCC is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators); (Appendix 1)
- a minimum revenue provision (MRP) policy, (how unfunded capital expenditure is charged to revenue over time); (Appendix 2)
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

b. A mid-year treasury management report – This is primarily a progress report and will update the PCC on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. An annual treasury report – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

3. Treasury Management Strategy for 2019/20

3.1 The strategy for 2019/20 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators; see Annex 1.
- the minimum revenue provision (MRP) policy. See Annex 2.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the PCC;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

Training

3.2 The CIPFA Code requires the responsible officer to ensure that officers with responsibility for treasury management receive adequate training in treasury management. This also applies to Audit Committee members responsible for scrutiny. Training on the Prudential Code and the Capital Strategy was provided to Audit Committee members in October 2018.

Treasury management consultants

3.3 The PCC uses Link Asset Services, Treasury solutions as its external treasury management advisors.

3.4 The PCC recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regard to all available information, including, but not solely, our treasury advisers.

3.5 It is also recognised that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The PCC will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The Treasury Management Function

3.6 The CIPFA Code defines treasury management activities as “the management of the PCC’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

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

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

3.9 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.

3.10 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.

3.11 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 Specialist Accountants based in the Joint Finance Department for Suffolk and Norfolk Constabularies.

3.12 External treasury management services continue to be provided by Link Asset Services in a joint contract with the PCC for Suffolk. Link 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).

3.13 Whilst Link 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.

3.14 Performance will continue to be monitored and reported to the PCC as part of the budget monitoring report.

3.15 Link Asset Service's Economic Forecast is set out in Annex 3.

4. Investment Strategy 2019/20

4.1 The Bank Rate is forecast to stay flat at 0.75% until quarter 2 2019 and not to rise above 1.25% until quarter 4 2020. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

4.2 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Financial Year	Budgeted Interest Earnings
2018/19	0.75%
2019/20	1.00%
2020/21	1.50%
2021/22	1.75%
2022/23	1.75%
2023/24	2.00%
Later Years	2.50%

4.3 There are 3 key considerations to the treasury management investment process. MHCLG'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 MHCLG'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 10).

5. Investment Strategy 2019/20 - 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

- **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

- **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 PCCs 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 2019/20 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 2019/20 to reflect the level of cash balances and to avoid large deposits with the DMO.

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 group 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 2019/20 – 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 365 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 PCCs 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 365 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 2019/20 therefore includes both Specified and Non-Specified Investment institutions.

7. Borrowing Strategy 2019/20

7.1 Capital expenditure can be funded 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 Financial Requirement, which simply represents the total outstanding capital expenditure, which has not yet been funded from either capital or revenue resources.

7.2 For the PCC, borrowing principally relates to long term loans (i.e. loans in excess of 365 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 £16.11m (excluding PFI). At 31 March 2018 there was a £29.1m Capital Financing Requirement (CFR) relating to unfunded capital expenditure which had been financed from internal resources. The CFR is estimated to be £31.2m at 31 March 2019, £40.3m at 31 March 2020 and £45.8 at 31 March 2021. Additional long term borrowing is estimated at £4.0m for 2018/19, £11.7m for 2019/20 and £6.95m for 2020/21. The borrowing requirement does not include the funding requirement in respect of assets financed through PFI.

7.5 The challenging and uncertain economic outlook outlined by Link Asset Services in Section 3, together with managing the cost of "carrying debt" requires a flexible approach to borrowing. The PCC, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks identified in Link 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 Link 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 The PCC will continue to use the most appropriate source of borrowing at the time of making application, including; the PWLB, commercial market loans, Local Authorities and the Municipal Bond Agency.

8. Treasury Management Prudential Indicators

8.1 In addition to the key Treasury Indicators included in the Prudential Code and reported separately, there are two treasury management 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:

- **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 at 31.3.19:

	Actual*	**Lower Limit**	**Upper Limit**
Under 12 months	0.3%	0%	15%
12 months and within 24 months	0.3%	0%	15%
24 months and within 5 years	11.2%	0%	45%
5 years and within 10 years	33.7%	0%	75%
10 years and above	54.5%	0%	100%

* Actual is based on existing balances at 31.12.18

- **Upper Limits to the Total of Principal Funds Invested for Greater than 365 Days –** This limit is set with regard to the PCC's liquidity requirements. It is estimated that in 2019/20, the maximum level of PCC funds invested for periods greater than 365 days will be no more than £4.475m.

Annex 1

Prudential Code Indicators 2019/20, 2020/21, 2021/22

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. A revised Prudential Code was published in December 2017 and is has applied from 2018/19

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 Forecast
- Capital Financing Requirement
- Actual External Debt
- Authorised Limit for External Debt
- Operational Boundary Limit for External Debt

However authorities are now advised to use local indicators, where this would be beneficial, especially if carry out commercial activities.

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 x (of the PCC's Budget and MTFP report 2019/23). The total estimated payments are:

	2019/20	**2020/21**	**2021/22**
	£m	£m	£m
Capital Expenditure Forecast	15.147	11.004	7.417

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 local taxation and non-specific government grants. 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		
2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
5.18%	5.31%	5.39%

2.3 The **capital financing requirement** represents capital expenditure not yet financed by capital receipts, revenue contributions or capital grants. It measures the underlying need to borrow for a capital purpose, although this borrowing may not necessarily take place externally. Estimates of the end of year capital financing requirement for future years are:

Capital Financing Requirement			
31/03/19 Estimate	31/03/20 Estimate	31/03/21 Estimate	31/03/22 Estimate
£91.499m	£99.441m	£103.637m	£105.702m

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 2019/20 and future years limits.
For 2019/20 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			
	2019/20	2020/21	2021/22
	£m	£m	£m
PWLB borrowing	31.633	38.278	40.455
Other long term liabilities (OCC PFI)	24.552	23.994	23.373
Other long term liabilities (PIC PFI)	34.564	33.834	33.049
Headroom	13.664	12.712	14.109
Total	104.413	108.818	110.987

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			
	2019/20	2020/21	2021/22
	£m	£m	£m
PWLB borrowing	3.633	38.278	40.455
Other long term liabilities (OCC PFI)	24.552	23.994	23.373
Other long term liabilities (PIC PFI)	34.564	33.834	33.049
Total	90.749	96.107	96.878

Annex 2

Minimum Revenue Provision (MRP)
Proposal to change MRP Policy and MRP Statement for 2019/20.

1. Introduction

1.1 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.

1.2 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.

2. Options for Making Prudent Provision

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

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

Option 2 - Capital Financing Requirement (CFR) Method

Under this option, MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year.

Option 3 – Asset Life Method
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) Charge MRP on an annuity basis, where MRP is the principal element for the year of the annuity required to repay over the asset's useful life the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during repayment period (e.g. by the application of capital receipts) should be made as necessary.

Option 4 - Depreciation
MRP is deemed to be equal to the provision required in accordance with deprecation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment charged to the income and expenditure accounts.

2.2 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.

2.3 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.

3. Proposed Change to MRP Policy

3.1 In previous accounting periods the option adopted for expenditure incurred after 1 April 2008 was Option 3a (Equal Instalment method). This method was deemed prudent whilst assets were primarily being internally financed.

3.2 As reserves, cash and investment balances have been consumed following the decrease in direct government funding, it is now necessary to externally finance capital expenditure on long life assets. The current preferred financing method is via the Public Works Loans Board (PWLB) borrowed on an annuity basis.

3.3 It is proposed that option 3b (Annuity Method) is adopted for capital expenditure chargeable as MRP for the first time after 1 April 2019. The principal reason for the proposed change is for the charge to revenue to reflect the capital repayment basis on the associated finance. This method will therefore adopt a similar MRP basis as those assets financed through lease or PFI arrangements.

3.4 Under the revised Statutory Guidance released on 2 February 2018, this proposed change in policy cannot be applied retrospectively to assets placed in service prior to the date the revised policy was introduced. Therefore it is proposed that Option 3a is still applied to capital expenditure chargeable as MRP for the first time prior to 1 April 2019.

3.5 Based on projected capital spend in the latest medium term financial plan (2019/2023) the change in policy will generate MRP reductions of £16k in 2020/21, £211k in 2021/22, £232k in 2022/23 and £271k in 2023/24. Savings will continue to be made until 2048/49. From 2049/50, the change in policy will generate additional charges to the revenue budget until 2070/71.

4. Recommendations

4.1 It is proposed that the MRP policy is changed for capital expenditure chargeable as MRP for the first time after 1 April 2019 and that the following MRP charges will apply for 2019/20:

- Capital expenditure incurred before April 2008 is treated in accordance with Option 1 of the regulatory guidance;
- Capital expenditure chargeable as MRP for the first time from 1 April 2008 to 31 March 2019 is treated in accordance with Option 3(a) of the regulatory guidance.
- Capital expenditure chargeable as MRP for the first time after 1 April 2019 is treated in accordance with Option 3(b) of the regulatory guidance.

Annex 3

LINK ASSET SERVICES

ECONOMIC BACKGROUND

GLOBAL OUTLOOK. World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to a marked acceleration of wage inflation which is likely to prompt central banks into a series of increases in central rates. The EU is probably about a year behind in a similar progression.

KEY RISKS - central bank monetary policy measures
Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as quantitative easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period has already started in the US, and more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This now means that both asset categories are vulnerable to a sharp downward correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt. In addition, the European Central Bank has cut back its QE purchases substantially and is likely to end them completely by the end of 2018.

UK. The flow of positive economic statistics since the end of the first quarter this year has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2; quarter 3 is expected to be robust at around +0.6% but quarter 4 is expected to weaken from that level.

At their November meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years time but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also *raise* Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor has held back some spare capacity to provide a further fiscal stimulus if needed.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring next year. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019. The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.4% in October. In the November Bank of England quarterly inflation report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards due to the Bank's inflation report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget; this is likely to add 0.3% to GDP growth at a time when there is little spare capacity left in the economy, particularly of labour.

As for the **labour market** figures in September**,** unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.2%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 0.8%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a, (temporary), boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. In particular, wage rates were increasing at 3.1% y/y in October and heading higher due to unemployment falling to a 49 year low of 3.7%. With CPI inflation over the target rate of 2% and on a rising trend towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being the fourth increase in 2018. They also indicated that they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019. However, a combination of an expected four increases in rates of 0.25% by the end of 2019, together with a waning of the boost to economic growth from the fiscal stimulus in 2018, could combine to depress growth below its potential rate, i.e. monetary policy may prove to be too aggressive and lead to the Fed having to start on cutting rates. The Fed has also been unwinding its previous quantitative easing purchases of debt by gradually increasing the amount of monthly maturing debt that it has not been reinvesting.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation. The results of the mid-term elections are not expected to have a material effect on the economy.

Eurozone. Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this is probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank has indicated it is likely to end all further purchases in December 2018. Inflationary pressures are starting to build gently so it is expected that the ECB will start to increase rates towards the end of 2019.

China. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

Japan - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging countries. Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

INTEREST RATE FORECASTS

Link Asset Services Interest Rate View	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

The interest rate forecasts provided by Link Asset Services above, are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since

2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**, possibly in **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. At the time of writing, the EU has rejected the proposed Italian budget and has demanded cuts in government spending which the Italian government has refused. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the actions of the Italian government and consequently, Italian bond yields have risen sharply – at a time when the government faces having to refinance large amounts of debt maturing in 2019.
- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.
- **Other minority eurozone governments.** Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with.
- **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy,** this year, has also elected a

strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.

- Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much improved yield. In October 2018, we have seen a sharp fall in equity markets but this has been limited, as yet. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks,** especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if both sides were to agree a compromise that removed all threats of economic and political disruption.
- **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Brexit timetable and process at 13.12.18

- March 2017: UK government notified the European PCC of its intention to leave under the Treaty on European Union Article 50 on 29 March 2019.
- 25.11.18 EU27 leaders endorsed the withdrawal agreement
- 11.12.18 vote in UK Parliament on the agreement (postponed)
- 21.12.18 – 6.1.19 UK Parliamentary recess
- Before 21.1.19 vote in UK Parliament on the agreement
- 8.1.19 – 29.3.19 second vote (?) in UK parliament if first vote rejects the deal
- 21.1.19 vote in Parliament on a 'no deal' scenario; if approved...
- By 29.3.19 then ratification by EU Parliament requires a simple majority
- By 29.3.19 if UK and EU parliaments agree the deal, EU PCC needs to approve the deal; 20 countries representing 65% of the EU population must agree
- 29.3.19 UK leaves the EU (or asks the EU for agreement to an extension of the Article 50 period if UK Parliament rejects the deal and no deal departure?)

- 29.3.19: if an agreement is reached with the EU on the terms of Brexit, then this will be followed by a proposed **transitional period ending around December 2020.**
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy may leave the single market and tariff free trade at different times during the transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- 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 - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.

Link Asset Services
October/November 2018 (updated)

Appendix H

Option 1 - Norfolk PCC Precept 2019/20 – Council Tax Freeze

			£	
Budget Requirement			157,710,496	
Less Government Funding			88,828,468	
To be met from council tax (incl. surplus)			68,882,028	
Billing Authority	**Taxbase**	**Precept Amount**	**Surplus on Collection Fund**	**Total Payments Due**
		£	**£**	**£**
BRECKLAND	43,480	9,962,961	91,415	10,054,376
BROADLAND	46,065	10,555,334	3,534	10,558,868
GT. YARMOUTH	28,560	6,544,238	107,304	6,651,542
K.LYNN & W. NORFOLK	51,179	11,727,041	396,730	12,123,771
NORTH NORFOLK	40,621	9,307,896	226,968	9,534,864
CITY OF NORWICH	36,325	8,323,511	347,204	8,670,715
SOUTH NORFOLK	49,138	11,259,481	28,410	11,287,891
	295,368	67,680,464	1,201,565	68,882,028

Valuation Band	**Council Tax 2018/19 £**	**Council Tax 2019/20 £**
A	152.76	152.76
B	178.22	178.22
C	203.68	203.68
D	229.14	229.14
E	280.06	280.06
F	330.98	330.98
G	381.90	381.90
H	458.28	458.28

(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 2018/19 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 2019 to February 2020 precept payments.

(iii) Where a deficit on collection of 2018/19 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 2019 to February 2020 precept payments.

Appendix I

Option 2 - Norfolk PCC Precept 2019/20 – £7.92 (3.46%) increase in Council Tax

			£	
Budget Requirement			160,049,805	
Less Government Funding			88,828,468	
To be met from council tax (incl. surplus)			71,221,337	

Billing Authority	**Taxbase**	**Precept Amount**	**Surplus on Collection Fund**	**Total Payments Due**
		£	**£**	**£**
BRECKLAND	43,480	10,307,321	91,415	10,398,736
BROADLAND	46,065	10,920,169	3,534	10,923,703
GT. YARMOUTH	28,560	6,770,434	107,304	6,877,738
K.LYNN & W. NORFOLK	51,179	12,132,375	396,730	12,529,105
NORTH NORFOLK	40,621	9,629,614	226,968	9,856,582
CITY OF NORWICH	36,325	8,611,205	347,204	8,958,409
SOUTH NORFOLK	49,138	11,648,654	28,410	11,677,064
	295,368	70,019,773	1,201,565	71,221,337

Valuation Band	**Council Tax 2018/19**	**Council Tax 2019/20**	**Increase Year**	**Increase Week**
	£	**£**		
A	152.76	158.04	5.28	0.10
B	178.22	184.38	6.16	0.12
C	203.68	210.72	7.04	0.14
D	229.14	237.06	7.92	0.15
E	280.06	289.74	9.68	0.19
F	330.98	342.42	11.44	0.22
G	381.90	395.10	13.20	0.25
H	458.28	474.12	15.84	0.30

(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 2018/19 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 2019 to February 2020 precept payments.

(iii) Where a deficit on collection of 2018/19 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 2019 to February 2020 precept payments.

Appendix J

Option 3 - Norfolk PCC Precept 2019/20 – £15.93 (6.95%) increase in Council Tax

			£	
Budget Requirement			162,415,697	
Less Government Funding			88,828,468	
To be met from council tax (incl. surplus)			73,587,229	

Billing Authority	Taxbase	Precept Amount	Surplus on Collection Fund	Total Payments Due
		£	£	£
BRECKLAND	43,480	10,655,595	91,415	10,747,010
BROADLAND	46,065	11,289,150	3,534	11,292,684
GT. YARMOUTH	28,560	6,999,199	107,304	7,106,503
K.LYNN & W. NORFOLK	51,179	12,542,315	396,730	12,939,045
NORTH NORFOLK	40,621	9,954,988	226,968	10,181,956
CITY OF NORWICH	36,325	8,902,168	347,204	9,249,372
SOUTH NORFOLK	49,138	12,042,250	28,410	12,070,660
	295,368	72,385,665	1,201,565	73,587,229

Vaulation Band	Council Tax 2018/19	Council Tax 2019/20	Increase	
			Year	Week
	£	£		
A	152.76	163.38	10.62	0.20
B	178.22	190.61	12.39	0.24
C	203.68	217.84	14.16	0.27
D	229.14	245.07	15.93	0.31
E	280.06	299.53	19.47	0.37
F	330.98	353.99	23.01	0.44
G	381.90	408.45	26.55	0.51
H	458.28	490.14	31.86	0.61

(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 2018/19 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 2019 to February 2020 precept
(iii)	Where a deficit on collection of 2018/19 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 2019 to February 2020 precept payments.

Appendix K

Option 4 - Norfolk PCC Precept 2019/20 – £23.94 (10.45%) increase in Council Tax

	£		
Budget Requirement	164,781,589		
Less Government Funding	88,828,468		
To be met from council tax (incl. surplus)	75,953,121		

Billing Authority	Taxbase	Precept Amount	Surplus on Collection Fund	Total Payments Due
		£	£	£
BRECKLAND	43,480	11,003,868	91,415	11,095,283
BROADLAND	46,065	11,658,130	3,534	11,661,664
GT. YARMOUTH	28,560	7,227,965	107,304	7,335,269
K.LYNN & W. NORFOLK	51,179	12,952,255	396,730	13,348,985
NORTH NORFOLK	40,621	10,280,363	226,968	10,507,331
CITY OF NORWICH	36,325	9,193,131	347,204	9,540,335
SOUTH NORFOLK	49,138	12,435,845	28,410	12,464,255
	295,368	74,751,557	1,201,565	75,953,121

Vaulation Band	Council Tax 2018/19	Council Tax 2019/20	Increase Year	Increase Week
	£	£		
A	152.76	168.72	15.96	0.31
B	178.22	196.84	18.62	0.36
C	203.68	224.96	21.28	0.41
D	229.14	253.08	23.94	0.46
E	280.06	309.32	29.26	0.56
F	330.98	365.56	34.58	0.67
G	381.90	421.80	39.90	0.77
H	458.28	506.16	47.88	0.92

(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 2018/19 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 2019 to February 2020 precept payments.

(iii) Where a deficit on collection of 2018/19 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 2019 to February 2020 precept payments.