OFFICE OF THE POLICE & CRIME COMMISSIONER FOR NORFOLK

REPORT TO THE NORFOLK POLICE AND CRIME PANEL
16 FEBRUARY 2016

REVISED PRECEPT FOR 2016/17

Executive Summary:

On the 2 February the Norfolk Police and Crime Panel vetoed the Police and Crime Commissioner's proposal to freeze the police element of the council tax in 2016/17.

As a result the Commissioner has considered the comments of the Panel and he now proposes to increase the council tax by 1.98% (Option 2 in the original report), the maximum permitted without triggering a referendum.

The report outlines the proposal for 2016/17, the Revenue Budget and Capital Programme for 2016/17 and the four year Medium Term Financial Plan (MTFP) 2016/17 to 2019/20 (assuming a 2% increase in each year).

The report contains Appendices that provide more detailed information.

Appendix A (i)	Budget and Medium Term Financial Plan 2016/20
Appendix A (ii)	Analysis of Known/Expected Changes
Appendix A (iii)	Analysis of Savings
Appendix B	High Level Analysis of the Net Budget 2016/17
Appendix C	Workforce Information
Appendix D	Proposed Capital Programme 2016/17 to 2019/20
Appendix E	Forecast movement in general and earmarked reserves 2015/16 to 2019/20
Appendix F	Prudential Code Indicators 2016/17, 2017/18, 2018/19
Appendix G	Annual Investment and Treasury Management Strategy 2016/17
Appendix H	Minimum Revenue Provision Statement 2016/17
Appendix I	Precept 2016/17

A separate report has been prepared for the Panel which address the matters identified in the report of the Panel to the Commissioner dated 3 February 2016 and sets out, in a little more detail, the plans currently in hand to address the policing demand pressures in the medium term.

Decision:

It is recommended that the Police and Crime Panel endorses the Police and Crime Commissioner's proposal to increase the police and crime element of the council tax in 2016/17 by 1.98% (£4.14) per annum to £212.94 at Band D.

Police and Crime Commissioner

Signature: **Date:**

1. Background

1.1 The decision on the level of the precept/council tax and the Revenue Budget and Capital Programme needs to be made in the context of the recent Spending Review, Home Office funding announcement, and the current economic climate. It should 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 the budget proposals within this report are made within the context of a four year strategic and financial planning cycle. The figures contained within the strategy are based upon current information and the stated assumptions.

1.2 The PCC's priorities remain unchanged and are captured in the Police and Crime Plan for 2015/16:-

- Reducing priority crime, anti-social behaviour and reoffending
- Reducing vulnerability, promote equality and support victims
- Reducing the need for service, through preventative and restorative approaches and more joined up working with partners; protecting the availability of front line resources.

1.3 The Constabulary faces significant service pressures, whilst Norfolk remains a very safe county the Constabulary is having to deal with exponential increases in reports of domestic abuse, rape and serious sexual offences, adult abuse and child abuse and allegations of cyber enabled fraud. These are some of the most complex and demanding investigations the service has to undertake and they require a highly skilled work force. As a result Norfolk Constabulary is facing some very different cost pressures which the Chief Constable believes have to be met if the threat is to be managed.

1.4 In accordance with the requirements of the Police and Crime Panel (Precepts and Chief Constable Appointments) Regulations 2012, a precept is to be proposed for 2016/17. In doing so, advice from the Chief Constable has been considered alongside views from the community, key stakeholders and public sector bodies in the police, community safety and local criminal justice areas.

2. Funding

Overview

2.1 The PCC's Medium Term Financial Plan (MTFP) has been consistent over many years. It provides for pay and price increases, budget growth to meet demand and service pressures, annual inflationary council tax increases, a significant change programme to make the required austerity cuts, and use of reserves to support the budget prior to savings coming on stream.

2.2 As set out below, the required austerity cuts will be much lower and this provides the opportunity to move away from cuts to bridge the budget gaps to finding savings for reinvestment to improve performance and meet demand.

2.3 The MTFP includes amended plans for the use of reserves previously required to support the budget pending savings coming on stream.

Provisional Grant Settlement

2.4 The provisional Home Office grant settlement announcements for policing were made on 17 December 2015. The proposals in this report are based on the provisional settlement, local tax base figures and planning assumptions regarding future funding levels, on-going commitments and capital expenditure plans.

2.5 During the course of the last parliament, and through two Spending Reviews, PCCs were required to deal with significant cuts in funding and deliver savings of around 20% in real terms. In the run up to the general election, and subsequently in the lead up to the Spending Review 2015, the expectation given to the police was that further cuts in excess of 25% in real terms would be required over the life of the new parliament and as such all workforce planning had been based on those expectations.

2.6 However, due to an improvement in economic forecasts, the Chancellor announced in the autumn statement on the 25th November 2015 that the funding settlement for police would be significantly better than previously expected, and the overall settlement for total police funding would be 'protected' at 2015/16 cash levels. There was a possibility that the funding for local forces would be cut (by top slicing) to meet national policing cost pressures (e.g. counter terrorism). In the end this did not happen as the Home Office has secured significant additional funding from the Treasury.

2.7 In the provisional Police Grant Report on 17th December 2015, the Minister of State for Policing stated "For 2016/17 direct resource funding for each PCC, including precept, will be protected at flat cash levels, assuming that precept income is increased to the maximum amount available."

2.8 The main policing grants have reduced by 0.6%. The Grant Settlement was confirmed on 4 February 2016. Further details are in the table at paragraph 6.1.

2.9 The Provisional Settlement also includes forecasts for the rest of the parliament (2017/18, 2018/19 and 2019/20), however we do not have force by force allocations and in any event these could be affected by the new funding formula (see below). In broad terms, funding is protected at current cash levels, assuming PCCs increase the council tax each year.

Grant damping and the Police Funding Formula

2.10 Earlier this year, the Home Office engaged in consultation on changes to the Police Funding Formula. The proposal was for the new arrangements to start for 2016/17, with transitional arrangements, over a period of time, to be decided. However, due to an error in the exemplifications from the Home Office, along with other issues raised during the consultation period, the Home Office has decided to postpone the introduction of a new formula until 2017/18.

2.11 Therefore, there were no changes to grant damping for 2016/17 funding and all PCCs core Home Office funding has been subject to the same cash reduction of 0.6% in comparison with 2015/16.

2.12 This means that there is only funding certainty for one year, as the new formula could have significant implications for police funding locally. Significant changes in funding would have to taper in over a number of years. Therefore a prudent and flexible approach to financial planning needs to continue.

Use of Reserves

2.13 The previous MTFP, considered by the Panel in February 2015, included the use of the Budget Support Reserve, in its entirety (£20m), to finance the budget, pending savings coming on stream.

2.14 Given the improved financial settlement, £15m of this Reserve will be used to finance capital expenditure previously funded from internal borrowing. In turn, this will generate revenue budget savings (from reduced 'minimum revenue provision' payments) rising to £1.5m per annum by 2018/19.

2.15 Around £6m of the Reserve will remain for use over the medium term. This is particularly important if the budget gaps increase.

2.16 The above proposal also reduces the risk of loss of reserves as part of the transition to the new funding formula (expected 2017/18) and delivers revenue savings going forward.

2.17 Commentary on the other reserves is set out in section 13 and appendix E.

3. Budget and Precept 2016/17 and MTFP

3.1 Appendix A(i) sets out the budget and forecasts. A(ii) sets out the expected changes, Appendix A(iii) sets out the savings and Appendix B shows a high level analysis of the Net Budget.

3.2 Details of the precept to be levied on the billing authorities is set out in Appendix I.

4. Collaboration and the Change Programme

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

4.2 The programme had a number of principal work streams, involving collaboration with Suffolk as well as Norfolk only initiatives.

4.3 The table overleaf shows the level of savings that have been made in implementing the Change Programme to date. In total, by the end of 2015/16 some £20.75m of savings specific to Norfolk have already been taken from budgets through the Change Programme.

Savings delivered via Change Programme to end of 2015/16

Portfolio	**Savings achieved to end of 2015/16 £000**
In collaboration with Suffolk:-	
Business Support	6,529
Justice Services	931
Protective Services	3,446
Other Collaborative	2,230
Norfolk Only (mainly local policing)	7,614
TOTAL PROGRAMME	**20,750**

4.4 The savings identified above arise from workforce reductions. The scrutiny process (see para 5.2) has, over the years, also delivered considerable savings in running costs (e.g. £3.3m in the current year, £1.1m in 2016/17).

4.5 Notwithstanding the improved funding outlook, there remains a need for the service to generate savings. Savings are needed to fund pay and price increases over the next 4 years, the overhang of cuts required relating to previous spending reviews, but more importantly so that increasing demand in particular areas of policing can be financed.

4.6 As a result, the Chief Constable intends to set in train a New Change Programme although a number of work streams are already in progress locally (Norfolk 2020) and regionally.

The New Change Programme

4.7 In a recent speech on police reform made by the Home Secretary (delivered after the Spending Review announcement), she made it very clear that the decision to protect police funding overall in cash terms did not change the fact that “every force will still need to make savings year on year” and needed to continue with savings plans to make further efficiencies. Clearly there is also a continuing obligation to modernise working practices and ensure the force is fit-for-purpose going forward. Some further legislation is expected on collaboration. Therefore, there is a clear need to continue with a change programme. The change of emphasis from straight cuts to finding savings for reinvestment will be welcome.

4.8 The new change programme will concentrate on three strands.

- Strategic budgeting review (Outcome Based Budgeting)
- Continued work on the Norfolk Local Policing Review, Norfolk 2020 (including working closely with partner agencies), and
- Regional collaboration on new work streams.

(i) Outcome Based Budgeting

Norfolk and Suffolk Constabularies are about to embark on a strategic review across both organisations of what is spent on the different activities of both forces, and what outcomes are being delivered. This information will then be assessed against the developing priorities and desired outcomes to ensure the use of the budget available is optimised and supports the continuation of transformation and modernisation of policing. This will take the form of an Outcome Based Budgeting review (OBB) and will help shape the change programme for the medium term.

(ii) Norfolk Local Policing Review (Norfolk 2020)

Norfolk 2020 was established to address two major aspects; the change in demands the organisation faces and the financial deficit. The scope is all areas within Local Policing, both Neighbourhood Policing, Safeguarding and Investigations and Command and Control. As such, the more positive financial outlook recently announced has only re-aligned some aspects of the review work, allowing the temporarily established team to work with the organisation to design Neighbourhood Policing for the future, the most efficient and effective deployment model identifying threat, risk and harm, and reorienting the organisation to the changing threats and demands.

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

(iii) Regional Collaboration

The PCCs and Chief Constables (CC) for the 6 police areas in the East of England together with the CC and PCC for Kent have confirmed their unanimous support for a 'Seven Force Strategic Collaboration Programme'. The costs of the work are being shared by the 7 forces and 3 early work streams being scoped are procurement, vetting and anti-corruption (Professional Standards). In the longer term every function, with the exception of local policing, can be scoped for collaborative working.

5. Budget process and consultation

5.1 A joint financial planning process has been on-going over recent months in accordance with a timetable previously agreed by the Norfolk and Suffolk Chief Constables.

5.2 An enhanced "scrutiny" process was developed this year that involved Senior Managers attending a Chief Officer Challenge Panel to review strategic issues, savings proposals, growth pressures and capital spend requirements. The process concluded with Norfolk and Suffolk Chief Constables reviewing the outcomes from the panel reviews, and agreeing joint budgets, costs and savings arising from the process to be included in spending plans.

5.3 In accordance with the requirements of Section 96 (1) (b) of the Police Act 1996, as amended by section 14 of the Police Reform and Social Responsibility Act 2011, the PCC has an obligation to consult with business rate payers and there is also a general responsibility to consult with the public. Two open public consultation meetings were held in Norwich and King's Lynn on 13th and 18th January 2016 respectively.

5.4 The Office of the Police and Crime Commissioner has also been running an online poll seeking residents' views on the levels of council tax for next year.

5.5 The results of the consultations have been provided separately to the Panel. Over 2,300 responses were received with 64% prepared to pay more for their policing.

6. Home Office Grant 2016/17

6.1 The changes in Government funding for 2016/17 are set out in the table below:

	2015/16	2016/17	Reduction	
	£000	£000	£000	%
Council Tax Freeze Grant	1,428	1,428	0	0.0%
Council Tax Support Grant	7,877	7,877	0	0.0%
Police Main Grant	79,446	78,993	453	0.6%
Total all Grants	**88,751**	**88,298**	**453**	**0.5%**

6.2 The Council Tax Freeze Grant of £1.4m relates to the decision of the former Police Authority to freeze the Council Tax in 2011/12. The Council Tax Support Grant of £7.9m has been payable since April 2013 when the Government made significant changes to Council Tax Benefit arrangements, the effect of which was to reduce the taxbase.

6.3 The Government has announced that there will be no new Council Tax freeze grant scheme for 2016/17. The Provisional Settlement is predicated on PCCs increasing council tax up to the referendum trigger level (2% or above).

6.4 The Home Office has re-allocated (top sliced) £218m from the national grant pot (£176m in the prior year). The main items making up this amount are £80m for the development of the Emergency Services Mobile Communications Programme (ESMCP) to replace Airwave, £55m for the national Police Innovation Fund, £32m to make changes to improve the capability of the Independent Police Complaints Commission (IPCC), £25m for a Police Special Grant contingency fund for police forces that facing significant and exceptional events, and £22m for Major Programmes including the National Police Database Programme.

6.5 Norfolk Constabulary has, as one partner in a regional collaborative, submitted 2 bids to the Home Office Innovation Fund. One of these is for support of the regional collaboration work described in paragraph 4.8 and the second is for the enhancement of an operational ICT system in use by East of England forces but which will be collaborated and run by the Eastern Region Special Operations Unit (ERSOU).

7. Council Tax Income

7.1 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 funds.

7.2 The taxbase figures which have been provided by the billing authorities are now confirmed.

8. Financial Planning Assumptions

8.1 The following financial planning assumptions have been used.

	2016/17	2017/18	2018/19	2019/20
Government grant	-0.5%	-1.5%	-1%	-1%
Council tax base change	2.23%	1.5%	1.5%	1.5%
Collection fund surplus	£1,421k	£0k	£0k	£0k
Pay awards - officers	1%	1%	1%	1%
Pay awards - staff	1%	1%	1%	1%
Non-pay inflation (average)	1.5%	1.5%	1.5%	2%

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

8.3 The following table identifies potential changes to the annual budget (up or down) if the planning assumptions are changed.

	Variation	Variation
		£m
Main Government grants	1.0%	0.8
Legacy council tax grants	1.0%	0.1
Tax base increase	1.0%	0.6
Precept	1.0%	0.6
Pay awards officers (full year impact)	1.0%	0.6
Pay awards staff (full year impact)	1.0%	0.4
Non-pay inflation	1.0%	0.3

Apprenticeship Levy

8.4 As part of the spending review an additional taxation levy was announced by the Chancellor. The Apprenticeship levy applies to all organisations with a pay bill over £3m, and equates to 0.5% of the tax bill to be paid over each month. The levy will be applied from April 2017.

9. Base Budget Pressures

Pension changes

9.1 A significant budget pressure, flagged in previous budget reports, has been included in the 2016/17 budgets in respect of revised state pension arrangements. A Pensions Bill was published in January 2013, which outlined the Government's intention to a reformed State Pension of £144 per week from April 2017. In June 2013, the Government announced that the implementation date was being brought forward to April 2016. This change is being financed by ending contracted out National Insurance contributions for employers and employees. This has implications for both the OPCC and Constabulary budgets. The cost is estimated to be £2.1m and has been included in the budget from 2016/17.

9.2 In Norfolk, even though traditional types of crime have been falling, there have been significant increases in serious sexual offences, domestic abuse, child sexual exploitation, adult abuse, and internet related (cyber) crime. The Chief Constable anticipates the demands in these areas continuing to rise significantly over the medium-term and beyond and he has updated the Panel at previous meetings. The 2016/17 budget provides for £1.1m of permanent additional resources in the areas of the business currently under pressure. **NB. The forecasts 2017/18 onwards do not include any estimates of additional resources required to meet these changing demands.**

9.3 The table below highlights some of the other significant budget pressures for both 2016/17 and beyond. Full details are in Appendix A (ii).

	2016/17 £m	2017/18 £m
Pay and Price Increases	1.3	1.3
LG Pension Scheme – Employer Contributions	0.3	0.3
Apprenticeships Levy	-	0.5
Single Tier Pension (additional NI)	2.1	2.1
Job Evaluation	1.4	1.0
Safeguarding posts	0.7	0.7
Control Room posts	0.4	0.4
Other Operational Support posts	0.5	-

9.4 A high level analysis of the net budget is shown in Appendix B.

10.0 Workforce Planning

10.1 Appendix C shows the changes in the establishment over the period from April 2010.

10.2 Both the PCC and Chief Constable have stressed their desire to do everything possible to protect the front line, in particular local policing. Given the level of savings required there have had to be some reviews of local policing arrangements and this has resulted in a reduction of PCSOs, neighbourhood officers, and sergeant and inspector ranks.

10.3 The Chief Constable has expressed a wish to put police officers back into neighbourhoods should he have sufficient budget flexibility to do this. The strategic intention is to work with partners across the county to build early intervention hubs in each district to reduce first time entrants into the criminal justice system and to build stronger and safer communities.

10.4 The establishment for PCSOs was reduced to 190 in 2015/16 and there are no proposals in this budget to reduce the numbers any further. The Norfolk 2020 review is currently looking at the roles and responsibilities of PCSOs.

10.5 The police staff establishment (which includes operational support as well as back office functions) has reduced by around 20% since 2010 and further savings are built into the budget. With the exception of the Legal Department, every support department is collaborated and considerable savings have been driven out over the period.

11. Council Tax Options

11.1 The Chief Constable has been consulted on possible precept options for 2016/17 and has considered these options in the context of the increasing and more complex demand pressures faced by the police, as well as the financial pressures outlined in this report.

11.2 Assuming that the council tax is also increased in 2017/18, 2018/19 and 2019/20 in line with government expectations, the position is as follows:-

	by 2019/20
Council Tax increase 1.98% each year	
Budget Deficit	£1.8m
Budget Support Reserve	£6.6m

If the council tax was frozen in 2017/18, 2018/19 and 2019/20 the position would be as follows. This is the worst case planning assumption for the next 4 years.

	by 2019/20
Council Tax freeze in years 2 to 4	
Budget Deficit	£5.5m
Budget Support Reserve	£6.6m
Detail in Appendix Ai	

11.3 Given the pressures outlined, and the context of the medium-term financial picture, the Chief Constable has recommended the PCC to raise the precept by 1.98% in 2016/17.

12. Capital Programme and Financing

12.1 The proposed outline capital programme has been updated to 2019/20 (see Appendix D). The revenue consequences of the proposed capital programme have been fully taken into account in preparing the MTFP.

12.2 Due to the continuing pace of modernisation, and ensuring that the force is fit-for-purpose, appropriately equipped and has an appropriate estate footprint, there is an increased requirement on the capital programme over the medium-term. This includes significant investment in new ICT programmes such as Body Worn Video.

12.3 The table below summarises the Capital Programme 2016/20 (Appendix D).

	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000
Estates schemes	10,966	6,170	410	10
ICT (Norfolk only)	385	1,496	472	472
ICT (Norfolk share of joint)	3,287	547	799	824
Vehicles and Equipment	1,305	1,015	955	1,041
Total	**15,943**	**9,228**	**2,636**	**2,347**

Note: The 2016/17 total includes £4.056m estimated as being carried forward from 2015/16.

12.4 The Capital Programme for 2016/17 is arranged in 3 tables:-

Table A Schemes approved for 2016/17,
Table B Schemes requiring a business case or further report to the PCC(s) for approval,
Table C Longer term, provisional schemes requiring further development.

12.5 Key aspects of the programme are outlined below.

- Capital costs for ICT include an improved programme of equipment replacement and updating of the technology infrastructure.

- New projects to help modernise the force are set out in the capital programme including Body Worn Video, and investment in additional ICT storage capabilities to cope with the increasing requirements from policing the modern web environment.

- Building Schemes include the one-off costs incurred in relation to the disposal of estate infrastructure that is either too large or not fit for purpose, and replacement with buildings that better meet operational needs and service requirements and cost less to maintain.

- Capital costs for fleet are for replacement vehicles and the equipment used to service them.

Capital Financing

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

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Grant	600	600	600	600
Capital Receipts	760	850	1,100	-
Revenue	850	850	850	850
Use of Reserves (see para 13.7)	8,493	828	-	896
Internal Borrowing	5,239	6,100	85	-
Total	**15,942**	**9,228**	**2,635**	**2,346**

Compliance with the Prudential Code

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

12.8 To demonstrate that objectives of affordability, prudence and sustainability have been achieved, the Prudential Code requires Prudential Indicators to be determined by the PCC. These are designed to support and record local decision making and for comparison over time. They are not designed to be comparative performance indicators. Details of the proposed indicators for 2016/17 are provided in Appendix

F. For illustrative purposes the indicators are based on a Council Tax increase in 2016/17 of 1.98%. If other options are chosen, this will not make any material difference to the figures. Progress against the indicators will be monitored throughout the year.

12.9 A number of treasury management indicators were formerly reported as part of the suite of Prudential Indicators. The latest Code of Practice for Treasury Management recommends that these now form part of the Treasury Management Strategy. Accordingly, they are now incorporated in that Strategy, at Appendix G.

13. Reserves and Risk Management

13.1 The PCC's reserves comprise two main categories:

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

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

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

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

13.4 Through sound financial management the PCC has set aside earmarked reserves to meet future spending needs. As referenced in the last budget report, two in particular continue to be critical to the financial strategy, namely the Budget Support Reserve and the Invest to Save Reserve.

Budget Support Reserve

13.5 The Budget Support Reserve is designed to support the budget over the medium term and was key to delivering the austerity cuts.

13.6 The PCC had planned to use approximately £21m (the whole reserve) over the period to 2019/20 to support (part finance) the budget, prior to savings coming on stream.

13.7 Given the improved financial settlement £15m of this Reserve will be used to finance capital expenditure previously funded from internal borrowing. In turn, this will generate revenue budget savings rising to £1.5m per annum by 2018/19, as repayments of 'principal' are not required. At this point in time we will only borrow for 50 year (life) schemes.

13.8 Around £6m of the Reserve will remain for use over the medium term. This is a prudent course of action and particularly important if the budget gaps increase.

Invest-to-Save Reserve

13.9 The Invest to Save Reserve provides funding for initiatives which will generate future savings. Examples include new technology, energy efficiency or carbon reduction and support of the collaboration agenda. At this stage it is intended to retain this reserve as opportunities frequently present themselves.

Other Earmarked reserves

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

- OCC Sinking Fund -Unitary Charge
  The reserve represents the excess of PFI Government grant over and above the unitary charge for the OCC building at Wymondham during the early years of the contract. The reserve will be written off over the remaining life of the contract.

- Police Investigation Centres Sinking Fund - Unitary Charge
  The reserve represents the excess of PFI Government grant over and above the unitary charge for the Police Investigation Centres during the first year of the contract. The reserve will be written off over the remaining life of the contract.

- Insurance
  Allows for anticipated future claims beyond the provision included in the budget. The level of the reserve is reviewed by independent actuarial advisers.

- Job Evaluation
  This covers the pay protection arising as a result of the job evaluation review. This reserve is not required after 2016/17 and the balance will be transferred to the Budget Support Reserve.

- Safety Camera Reserve
  This reserve is held by the Norfolk PCC on behalf of Norfolk Police and Norfolk County Council. Decisions as to allocations are made by the Safety Camera Oversight and Scrutiny Board.

- PCC Reserve
  The PCC holds a separate reserve as a contingency.

13.11 A forecast for the use of the reserves is shown in Appendix E (Options 1 and 2).

14. Chief Financial Officer's Section 25 Responsibilities

Background

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

Robustness of the Budget

14.2 The budget proposals have been through a rigorous process of assessment by officers, with particular scrutiny of budget holders by Constabulary executive officers, both individually and as a group.

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

14.4 The purpose and proposed use of reserves is outlined in this report. The PCC CFO has considered the proposed level of reserves and believes that they are adequate for the purposes for which they are intended.

Risk and the Budget

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

14.6 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 Office of the PCC also maintains a strategic risk register and the whole risk management process is overseen by the Audit Committee.

14.7 The main risks that may impact upon the delivery of the 2016/17 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.

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

Efficiency

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

Treasury Management Strategy

14.10 Government regulations require the PCC to approve an annual investment strategy prior to the start of the financial year. This is incorporated within an over-arching Treasury Management Strategy. The proposed strategy is shown in Appendix G and was considered by the Audit Committee on 29 January 2016.

Minimum Revenue Provision Statement

14.11 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 place a duty on local authorities including the PCC to make a Minimum Revenue Provision (MRP) each year that is considered to be “prudent”. The regulations are backed up by statutory guidance to which local authorities and PCC are required to have regard. The guidance requires that an annual MRP statement is agreed. The statement for 2016/17 at Appendix H accords with this guidance.

15. Conclusion

15.1 Even with a council tax increase in 2016/17 savings are required, year on year, to finance inflation, the overhang of savings required from previous spending reviews and to finance the changing demand.

15.2 £15m from the Budget Support Reserve has been invested in the repayment of internal borrowing, releasing significant revenue savings.

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

15.4 The other uncertainty is inflation. All pay and price increases (estimated at 1% per annum through the MTFP) have to be found from savings.

16. Other Implications

16.1 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.

Budget Proposal – Council Tax increase 1.98%

		Line	2016/17	2017/18	2018/19	2019/20
			£000	£000	£000	£000
FORWARD PROJECTION OF REVENUE BUDGET:						
	Total Revenue Expenditure before savings	1	161,374	162,995	164,633	166,422
	Revenue Funding of Capital Expenditure	2	2,769	2,769	2,769	2,769
	Total Revenue Income inc Specific Grants	3	(15,802)	(15,818)	(15,833)	(15,849)
	Home Office Grant	4	(78,993)	(77,808)	(77,030)	(76,260)
	Council Tax Freeze Grant (for no precept increase in 2011/12)	5	(1,428)	(1,428)	(1,428)	(1,428)
	Council Tax Support Grant	6	(7,877)	(7,877)	(7,877)	(7,877)
	Precept Income	7	(60,630)	(61,291)	(63,448)	(65,682)
DEFICIT / (SURPLUS) BEFORE KNOWN CHANGES		8	**(588)**	**1,542**	**1,786**	**2,095**
	Known / Expected Changes	9	14,852	6,673	5,644	6,680
	Planned use of reserves	10	(9,121)	(918)	0	(896)
REVENUE DEFICIT BEFORE SAVINGS		11	**5,143**	**7,297**	**7,430**	**7,879**
	Norfolk Policing Model (incl. PCSOs)	12	(1,752)	(1,913)	(1,932)	(1,951)
	Other Change Programme Savings	13	(2,157)	(2,393)	(2,415)	(2,439)
	Other Savings	14	(1,234)	(1,656)	(1,733)	(1,733)
	Total Cumulative Permanent Savings	15	**(5,143)**	**(5,962)**	**(6,081)**	**(6,123)**
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS		16	**0**	**1,335**	**1,349**	**1,756**
Financed by						
	Savings to be identified	17		**(1,335)**	**(1,349)**	**(1,756)**

Council Tax Freeze in 2017/18, 2018/19, and 2019/20

		Line	2016/17	2017/18	2018/19	2019/20
			£000	£000	£000	£000
FORWARD PROJECTION OF REVENUE BUDGET:						
	Total Revenue Expenditure before savings	18	161,374	162,995	164,633	166,422
	Revenue Funding of Capital Expenditure	19	2,769	2,769	2,769	2,769
	Total Revenue Income inc Specific Grants	20	(15,802)	(15,818)	(15,833)	(15,849)
	Home Office Grant	21	(78,993)	(77,808)	(77,030)	(76,260)
	Council Tax Freeze Grant (for no precept increase in 2011/12)	22	(1,428)	(1,428)	(1,428)	(1,428)
	Council Tax Support Grant	23	(7,877)	(7,877)	(7,877)	(7,877)
	Precept Income	24	(60,630)	(60,097)	(60,999)	(61,914)
DEFICIT / (SURPLUS) BEFORE KNOWN CHANGES		25	**(588)**	**2,735**	**4,235**	**5,863**
	Known / Expected Changes	26	14,852	6,673	5,644	6,680
	Planned use of reserves	27	(9,121)	(918)	0	(896)
REVENUE DEFICIT BEFORE SAVINGS		28	**5,143**	**8,490**	**9,879**	**11,647**
	Norfolk Policing Model (incl. PCSOs)	29	(1,752)	(1,913)	(1,932)	(1,951)
	Other Change Programme Savings	30	(2,157)	(2,393)	(2,415)	(2,439)
	Other Savings	31	(1,234)	(1,656)	(1,733)	(1,733)
	Total Cumulative Permanent Savings	32	**(5,143)**	**(5,962)**	**(6,081)**	**(6,123)**
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS		33	**0**	**2,528**	**3,799**	**5,524**
Financed by						
	Savings to be identified	34		**(2,528)**	**(3,799)**	**(5,524)**

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

	Line	Forecast 2016/17 £000	Forecast 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000
STATUTORY CHANGES					
Rent and Housing Allowances	1	(200)	(400)	(600)	(800)
Competency Related Threshold Payments	2	(217)	(217)	(217)	(217)
Variation in Bank Holidays (11 in 15/16 then 8, 9, 7 & 8)	3				
Variation in Easter Bank Holiday Numbers	4	(556)	(139)	(417)	(278)
Variation in Christmas & New Year Bank Holiday Numbers	5	134			
Auto-enrolment to Pension schemes	6		342	342	342
Single Tier Pension	7	2,100	2,100	2,100	2,100
Local Government Pension Scheme increase - Norfolk	8	322	322	322	322
Firearms Licensing Income	9	19	66	195	154
Bear Scotland (Legal case)	10	150	150	150	150
Apprenticeship Levy			500	500	500
TOTAL STATUTORY CHANGES	11	**1,752**	**2,724**	**2,375**	**2,273**
SERVICE DEVELOPMENTS					
Athena - Business As Usual	12	484	148	115	115
Athena - Performance Improvement Fund	13	172	136	136	136
Eastern Region Special Operations Unit	14	248	248	248	248
Multi Agency Safeguarding Hub - Investigation Management Unit	15	84			
Pay and Conditions Harmonisation - pay protection	16	354			
Job Evaluation - staff salaries	17	1,000	1,000	1,000	1,000
Job Evaluation - impact of change programme	18	(60)	(60)	(60)	(60)
Academia (Evidence Based Policing Contract)	19	113	90		
TOTAL SERVICE DEVELOPMENTS	20	**2,395**	**1,562**	**1,439**	**1,439**
CHANGES SUBJECT TO BUSINESS CASES					
7 Force Collaboration Contribution	21	161			
TOTAL CHANGES SUBJECT TO BUSINESS CASES	22	**161**			
CAPITAL FINANCING					
Capital Programme Funding	23	8,493	828		896
Minimum Revenue Provision	24	(393)	(226)	21	109
TOTAL CAPITAL FINANCING	25	**8,100**	**602**	**21**	**1,005**
CHANGES FOLLOWING ENHANCED SCRUTINY BUDGET REVIEW					
Growth Posts					
Temporary	26	478			
Permanent	27	1,122	1,122	1,122	1,122
Non Pay	28	844	663	687	841
TOTAL CHANGES FOLLOWING ENHANCED SCRUTINY BUDGET REVIEW	29	**2,444**	**1,785**	**1,809**	**1,963**
Total Changes Before Reserve Movement Adjustments	30	**14,852**	**6,673**	**5,644**	**6,680**
<u>Reserve Funded adjustments</u>					
Academia - Evidence Based Policing Contract (Invest to Save)	31	(113)	(90)		
Job Evaluation Reserve	32	(354)			
7 Force Collaboration Contribution	33	(161)			
Capital Programme Funding	34	(8,493)	(828)		(896)
Total Reserve funded adjustments	35	**(9,121)**	**(918)**		**(896)**
Total Known / Expected Changes (net of reserve movements)	36	**5,731**	**5,755**	**5,644**	**5,784**

Analysis of Savings
(Same for both Options)

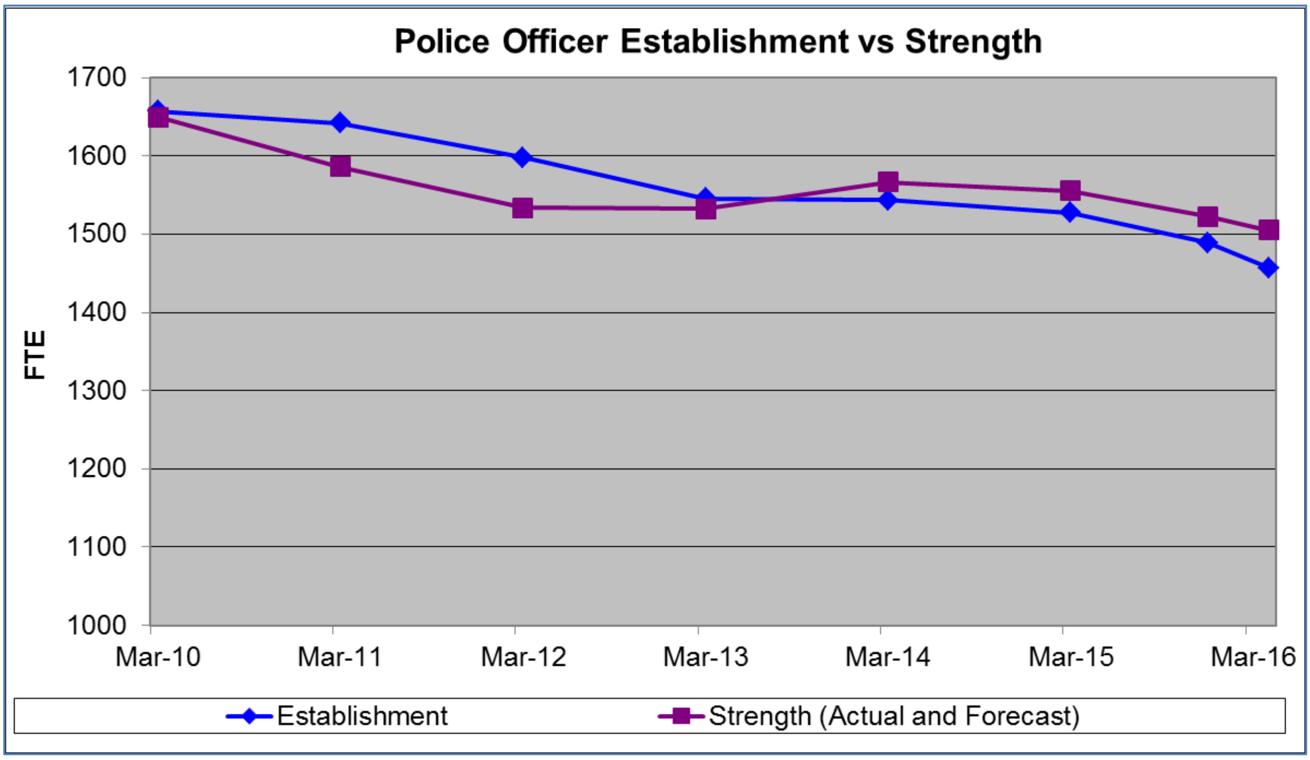
		Line	Forecast	Forecast	Forecast	Forecast
Change Programme savings:			**2016/17**	**2017/18**	**2018/19**	**2019/20**
			£000	£000	£000	£000
Joint:						
	Back Office	1	969	1,167	1,167	1,167
	Justice	2	479	479	479	479
	Protective Services	3	596	610	609	609
	+ 1% Inflation	4		23	45	68
Joint Savings:		5	**2,044**	**2,279**	**2,300**	**2,323**
Single Force:						
	Norfolk Policing Model	6	1,752	1,894	1,894	1,894
	+ 1% Inflation	7		19	38	57
	Norfolk Policing Model	8	**1,752**	**1,913**	**1,932**	**1,951**
	Public Enquiry Offices	9	96	96	96	96
	Community Safety	10	17	17	17	17
	+ 1% Inflation	11		1	2	3
	Other savings	12	**113**	**114**	**115**	**116**
Single Force Savings;		13	**1,865**	**2,027**	**2,047**	**2,067**
Total Change Programme Savings:		14	**3,909**	**4,306**	**4,347**	**4,390**
Other Savings:						
	As per scrutiny - Pay	15	34	34	34	34
	As per scrutiny - Non Pay	16	818	920	956	956
	Forensic Contract	17	57	57	57	57
	ERP - Legacy system savings	18	75	145	186	186
	2015/16 Non-pay Inflation - 1%	19	250	500	500	500
Total Other Savings		20	**1,234**	**1,656**	**1,733**	**1,733**
PERMANENT SAVINGS AGAINST 2015/16 BASE:		21	**5,143**	**5,962**	**6,081**	**6,123**

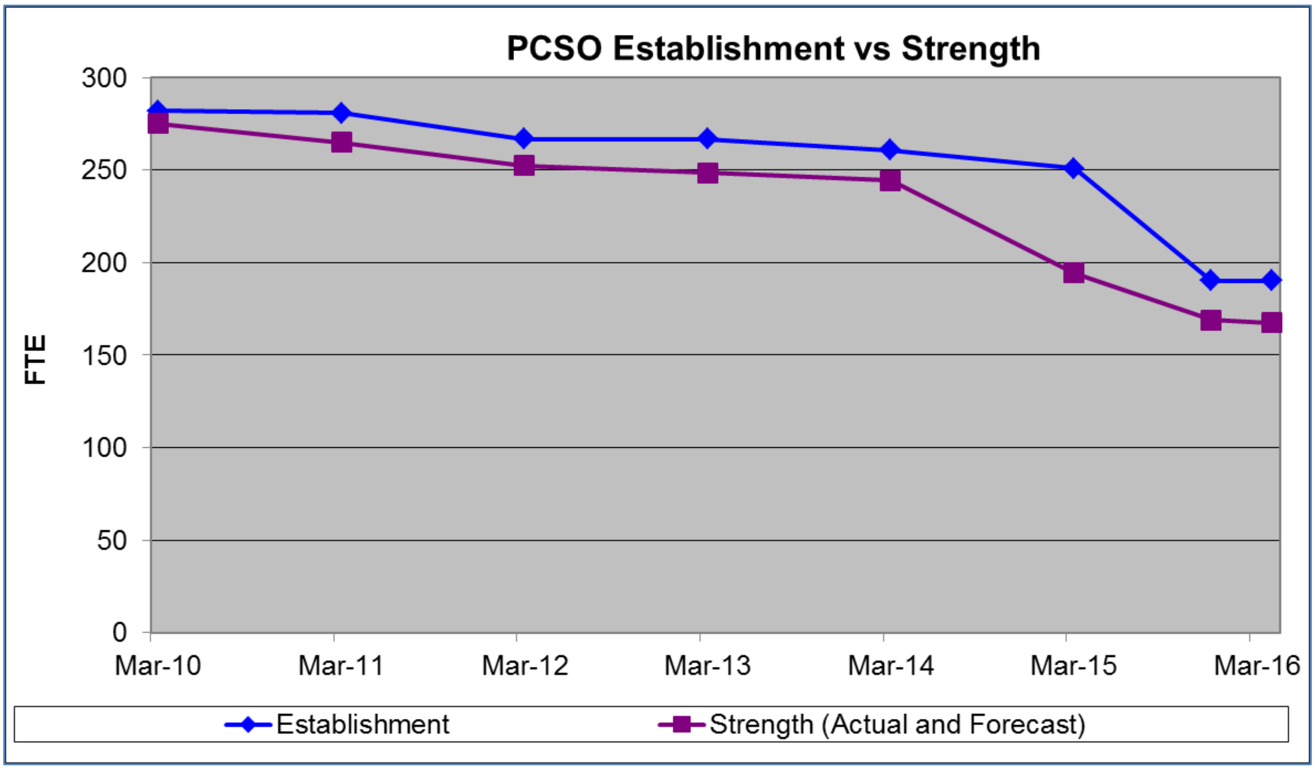
High Level Analysis of the Net Budget 2016/17

Year	Office of the PCC	PCC's Commissioning	Chief Constable	Capital Financing	Use of Reserves	Net Budget
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
2016/17	999	1,018	145,172	10,860	(9,121)	**148,928**

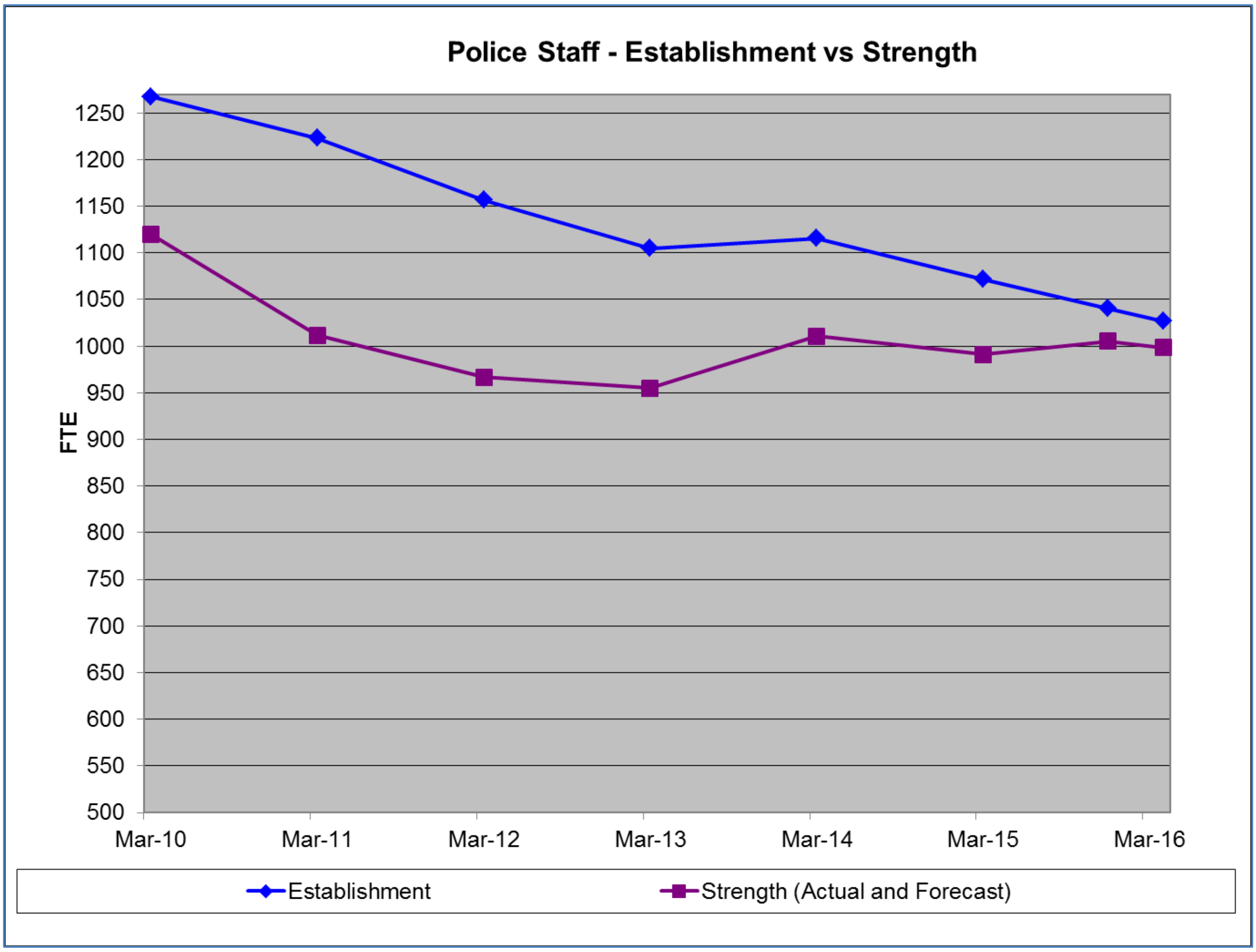
Appendix C

Workforce Information





Appendix C (contd)



Appendix D

Capital Programme 2016/20

Capital MTFP								
PROJECT	Slippage assumed in 2015/16 monitoring	Additional requirement in 2016/17	2016/17 Total Requirement			2017/18	2018/19	2019/20
			Table A	Table B	Table C			
Estates								
Downham Market - Renew Heating Services.	50,000	0	50,000					
North Walsham - New Build.	1,001,000	1,110,000	2,111,000			200,000		
Attleborough - New Build at Fire Station.	435,000	115,000	550,000			50,000		
Kings Lynn - Remodelling.	1,044,000	741,000	1,785,000			1,400,000	100,000	
Hoveton		10,000	10,000					
Bethel Street - Remodelling.	100,000	2,000,000	2,100,000			1,800,000		
Gt Yarmouth - Remodelling.		2,000,000	2,000,000			2,000,000	300,000	
Carbon Management		25,000	25,000			25,000	10,000	10,000
Gorleston - New Build at Beacon Park.	1,135,000	1,200,000		2,335,000		650,000		
Sprowston [Feasibility]		0				45,000		
TOTAL	**3,765,000**	**7,201,000**	**8,631,000**	**2,335,000**	**0**	**6,170,000**	**410,000**	**10,000**
ICT								
ICT Replacements - Communications		24,500	24,500			24,500		
ICT Replacements - Desktop Services		360,160	360,160			471,500	471,500	471,500
ESMCP		0				1,000,000		
TOTAL	**0**	**384,660**	**384,660**	**0**	**0**	**1,496,000**	**471,500**	**471,500**
Equipment & Vehicles								
Long Term Hire Replacement		224,000	224,000					
Vehicle Replacement Programme	25,000	1,056,000	1,081,000			1,015,000	955,000	1,041,000
TOTAL	**25,000**	**1,280,000**	**1,305,000**	**0**	**0**	**1,015,000**	**955,000**	**1,041,000**
Total - Norfolk Only	**3,790,000**	**8,865,660**	**10,320,660**	**2,335,000**	**-**	**8,681,000**	**1,836,500**	**1,522,500**
Norfolk Share of Joint Projects	266,110	3,020,775	1,373,795	1,856,590	56,500	546,980	798,630	823,710
Total Norfolk Only plus Norfolk share of Joint	**4,056,110**	**11,886,435**	**11,694,455**	**4,191,590**	**56,500**	**9,227,980**	**2,635,130**	**2,346,210**

Capital Programme 2016/20 – continued

	Capital MTFP							
PROJECT	Slippage assumed in 2015/16 monitoring	Additional requirement in 2016/17	2016/17 Total Requirement			2017/18	2018/19	2019/20
			Table A	Table B	Table C			
ICT								
ANPR Cameras	170,000	190,000	360,000					500,000
SNOW -Software Asset Management Software		32,000	32,000					
ViPro Dashbaord (PSD)		7,500	7,500					
Marval Upgrade		12,500	12,500					
Intranet		75,000	75,000					
Constabulary Website		100,000	100,000					
Athena		497,000	203,000	294,000				
Mobile/Smart phone		10,000	10,000			10,000	10,000	
Satellite Navigation		30,000	30,000			30,000	150,000	
Joint ICT Replacements - Servers & Applications		834,000	834,000			404,000	573,000	565,000
ICT Replacements - Network		717,500	717,500			474,100	370,500	342,900
CCR Telephony	301,000	459,000		760,000				
Live Link Project		100,000		100,000				
Marval Extension (BSFOM)		32,000		32,000				
Joint INCA Replacement		200,000		200,000				
Business Data Management (BRC)		800,000		800,000				
Body Worn Video		1,000,000		1,000,000				
ERP Development		100,000		100,000				
ANPR Vehicle Equipment							260,000	
Equipment								
Confidential Waste								
Tasers		50,000	50,000			50,000	50,000	50,000
Automated Filing Solution		100,000			100,000			
TOTAL	**471,000**	**5,346,500**	**2,431,500**	**3,286,000**	**100,000**	**968,100**	**1,413,500**	**1,457,900**
Joint Capital Projects - Norfolk	266,110	3,020,775	1,373,795	1,856,590	56,500	546,980	798,630	823,710
Joint Capital Projects - Suffolk	204,890	2,325,725	1,057,705	1,429,410	43,500	421,120	614,870	634,190
	471,000	**5,346,500**	**2,431,500**	**3,286,000**	**100,000**	**968,100**	**1,413,500**	**1,457,900**

Capital Financing is shown in the Table at paragraph 12.6

Appendix E

FORECAST MOVEMENT IN GENERAL AND EARMARKED RESERVES 2015/16 to 2019/20

(assuming 2% per annum council tax increases)

PROJECTION OF RESERVES LEVELS:	Total General Reserve	OCC Sinking Fund	PIC Sinking Fund	Insurance	Operational Contingency	Budget Support	Invest to Save	Job Evaluation	Safety Camera	PCC	Total Earmarked Reserve
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
31/03/2015 Actual	**4,475**	**1,840**	**420**	**786**	**400**	**21,414**	**1,628**	**3,200**	**2,016**	**1,017**	**32,721**
Proposed Changes 2015/16:											
Transfer between Reserves					(400)	1,317		(917)			
Transfer to Revenue from Reserves		(80)	(18)			(3,016)	(274)	(354)	(1,834)	(350)	**(5,926)**
Transfer from Revenue to Reserves									642		**642**
Transfer to Revenue from Reserves - Backfund assets						(2,251)					**(2,251)**
Transfer to Revenue from Reserves - 2015/16 capital funding						(2,176)					**(2,176)**
31/03/2016 Forecast	**4,475**	**1,760**	**402**	**786**		**15,288**	**1,354**	**1,929**	**824**	**667**	**23,010**
Proposed Changes 2016/17:											
Transfer to Revenue from Reserves		(80)	(18)				(274)	(354)			**(726)**
Transfer to Revenue from Reserves - capital funding						(8,493)					**(8,493)**
Transfer from Revenue to Reserves											
Transfer between Reserves						1,575		(1,575)			
31/03/2017 Forecast	**4,475**	**1,680**	**384**	**786**		**8,370**	**1,080**		**824**	**667**	**13,791**
Proposed Changes 2017/18:											
Transfer to Revenue from Reserves - capital funding		(80)	(18)			(828)	(90)				**(1,016)**
Transfer from Revenue to Reserves											
31/03/2018 Forecast	**4,475**	**1,600**	**366**	**786**		**7,542**	**990**		**824**	**667**	**12,775**
Proposed Changes 2018/19:											
Transfer to Revenue from Reserves		(80)	(18)								**(98)**
Transfer from Revenue to Reserves											
31/03/2019 Forecast	**4,475**	**1,520**	**348**	**786**		**7,542**	**990**		**824**	**667**	**12,677**
Proposed Changes 2019/20:											
Transfer to Revenue from Reserves - capital funding		(80)	(18)			(896)					**(994)**
Transfer from Revenue to Reserves											
31/03/2020 Forecast	**4,475**	**1,440**	**330**	**786**		**6,646**	**990**		**824**	**667**	**11,683**

Appendix F

Prudential Code Indicators 2016/17, 2017/18, 2018/19

1. Background

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

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

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

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

1.4 The required indicators are:

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

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

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

2. The Indicators

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

	2016/17	2017/18	2018/19
	£m	£m	£m
Capital Expenditure Forecast	15.943	9.228	2.635

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

2.2 The **ratio of capital financing costs to net revenue budget** shows the estimated annual revenue costs of borrowing (net interest payable on debt and the minimum revenue provision for repaying the debt), as a proportion of annual income from council taxpayers and government. 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		
2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
7.37%	2.27%	1.87%

The ratio in 2016/17 is higher due to a change in strategy to only fund assets over 50 years from borrowing.

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

Capital Financing Requirement			
31/03/16 Estimate	31/03/17 Estimate	31/03/18 Estimate	31/03/19 Estimate
£88.919m	£92.233m	£96.484m	£94.473m

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

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

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

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

2.5 The Code defines the **authorised limit for external debt** as the sum of external borrowing and any other financing long-term liabilities e.g. finance leases. It is recommended that the PCC approve the 2015/2016 and future years limits.

For 2016/17 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			
	2016/17	2017/18	2018/19
	£m	£m	£m
Borrowing	12.761	12.761	12.761
NCC transferred Debt	0.468	0.312	0.156
Other long term liabilities (OCC PFI)	26.217	25.842	25.423
Other long term liabilities (PIC PFI)	36.483	35.875	35.243
Safety net	7.315	7.235	7.151
Total	83.244	82.025	80.734

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			
	2016/17	2017/18	2018/19
	£m	£m	£m
Borrowing	12.761	12.761	12.761
NCC Transferred Debt	0.468	0.312	0.156
Other long term liabilities (OCC PFI)	26.217	25.842	25.423
Other long term liabilities (PIC PFI)	36.483	35.875	35.243
Total	75.929	74.790	73.583

The Office of the Police and Crime Commissioner for Norfolk
Annual Investment and Treasury Strategy 2016/17

1. Introduction

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

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

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

2. The Treasury Management Function

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

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

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

2.4 The PCC has delegated responsibility for treasury management decisions taken within the approved strategy to the PCC CFO. Day to day execution and administration of investment and borrowing decisions, previously carried out by Norfolk County Council, is now undertaken by the Specialist Accountant (Treasury

Management, Cash Management & VAT) based in the Joint Finance Department for Suffolk and Norfolk Constabularies.

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

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

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

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

3. Capita Asset Services Economic Forecast

Economic Overview

3.1 UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

3.2 The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel prices will now delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% in the second half of 2016 and not get to near 2% until 2017, though the forecasts in the Report itself were for an even slower rate of increase. There is considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

3.3 USA. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then pulled back to 2.1% in quarter 3. The run of strong monthly increases in nonfarm payrolls figures for growth in employment in 2015 has prepared the way for the Fed. to embark on its long awaited first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

3.4 EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to an improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and +0.3% in quarter 3. However, this lacklustre progress in 2015 together with the recent downbeat Chinese and emerging markets news, has prompted comments by the ECB that it stands ready to strengthen this programme of QE by extending its time frame and / or increasing its size in order to get inflation up from the current level of around zero towards its target of 2% and to help boost the rate of growth in the EZ.

3.5 Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

3.6 Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost power. A left wing / communist coalition has taken power in Portugal which is heading towards unravelling previous pro austerity reforms. This outcome could be replicated in Spain. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;

- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenomenally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

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

Quarter Ending	**Base Rate (%)**	**PWLB Borrowing Rates (%)**		
		5 year	**25 year**	**50 year**
Mar 2016	0.50	2.40	3.70	3.60
June 2016	0.75	2.60	3.80	3.70
Sept 2016	0.75	2.70	3.90	3.80
Dec 2016	1.00	2.80	4.00	3.90
Mar 2017	1.00	2.80	4.10	4.00
June 2017	1.25	2.90	4.10	4.00
Sep 2017	1.50	3.00	4.20	4.10
Dec 2017	1.50	3.20	4.30	4.20
Mar 2018	1.75	3.30	4.30	4.20
June 2018	1.75	3.40	4.40	4.30
Sep 2018	2.00	3.50	4.40	4.30
Dec 2018	2.00	3.50	4.40	4.30
Mar 2019	2.00	3.60	4.50	4.40
Increase over the 3 year period	+1.50	+1.20	+0.80	+0.80

4. Investment Strategy 2016/17

4.1 Forecasts of short-term interest rates, on which investment decisions are based, suggest that the 0.5% Bank Rate will remain unchanged until the end of the first quarter of 2016. There is a risk that if economic growth weakens, increases in the Bank Rate will be pushed back.

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

Financial Year	Budgeted Interest Earnings
2016/17	0.90%
2017/18	1.50%
2018/19	2.00%

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

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

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

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

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

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

5. Investment Strategy 2016/17 - Counterparty Criteria

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

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

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

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

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

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

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

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

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

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

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

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

5.3 All cash invested by the PCC in 2016/17 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 2016/17 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 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 2016/17 – Specified and Non-Specified Investments

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

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

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

- Any investment greater than 364 days.

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

6.4 The PCC's proposed Strategy for 2016/17 therefore includes both Specified and Non-Specified Investment institutions.

7. Borrowing Strategy 2016/17

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

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

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

7.4 External borrowing currently stands at £13.39m, this includes a transferred debt balance of £0.62m. At 31 March 2015 there was an additional £24.21m internal borrowing requirement relating to unfunded capital expenditure financed from temporary cash resources. The net internal borrowing requirement is estimated to be £23.53m at 31 March 2016 and £27.54m at 31 March 2017. The new internal borrowing requirement is estimated at £0.32m for 2015/16 and £5.0m for 2016/17. The internal 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 Capita 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 Capita Asset Services economic overview (Section 3).

7.6 The level of outstanding debt and composition of debt, in terms of individual loans, is kept under review. The PWLB provides a facility to allow the restructure of debt, including premature repayment of loans, and encourages local authorities and PCCs to do so when circumstances permit. This can result in net savings in overall interest charges. The PCC CFO and Capita Asset Services will monitor prevailing rates for any opportunities during the year.

7.7 The PCC has flexibility to borrow funds in the current year for use in future years. For example, the PCC CFO may do so under delegated powers where a sharp rise in interest rates is expected and so borrowing early at fixed interest rates may be economically beneficial or meet budgetary constraints. Whilst the PCC CFO will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing will be undertaken to fund the approved capital programme. Risks associated with any advance borrowing will be subject to appraisal in advance and subsequent reporting through the established reporting process.

7.8 PWLB borrowing has become less attractive in recent years, due to its policy decision to increase the margin payable over interest rates (Gilts). In response, the Local Government Association is currently in the process of setting up a "Municipal Bond Agency." While it is hoped that the Agency's borrowing rates will be lower than those offered by the PWLB, this is by no means guaranteed. Initially it is unlikely that the Agency will be able to offer the same degree of operational flexibility as the PWLB regarding loan advances and repayments. The PCC will continue to use the most appropriate source of borrowing at the time of making application, including; the PWLB, commercial market loans and the Municipal Bond Agency.

8. Treasury Management Prudential Indicators

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

- **Upper Limits on Variable Interest Rate Exposure** – This identifies a maximum limit for variable interest rates based upon the debt position net of investments. It is recommended that the PCC set an upper limit on its variable interest rate exposures for 2016/17, 2017/18 and 2018/19 of 100% of its net outstanding principal sums.

- **Upper Limits on Fixed Interest Rate Exposure** – Similar to the previous indicator, this covers a maximum limit on fixed interest rates. It is recommended that the PCC set an upper limit on its fixed interest rate exposures for 2016/17, 2017-2018 and 2018-2019 of 100% of its net outstanding principal sums.

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

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

- **Total Principal Funds Invested for Greater than 364 Days –** This limit is set with regard to the PCC's liquidity requirements. It is estimated that in 2016/17, the maximum level of PCC funds invested for periods greater than 364 days will be no more than £10m.

MINIMUM REVENUE PROVISION STATEMENT 2016/17

Introduction

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

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

Options for Making Prudent Provision

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

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

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

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

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

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

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

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

Recommendations

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

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

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

Norfolk PCC Precept 2016/17 – 1.98% increase in Council Tax

	£
Budget Requirement	148,927,979
Less Government Funding	88,297,577
To be met from council tax (incl. surplus)	60,630,402

Billing Authority	Precept Amount	Surplus on Collection Fund	Total Payments Due
	£	**£**	**£**
Breckland	8,754,347	647,053	9,401,400
Broadland	9,511,178	31,000	9,542,178
Kings Lynn & W Norfolk	10,208,322	141,222	10,349,544
Norwich	7,308,527	104,439	7,412,966
Great Yarmouth	5,690,183	97,000	5,787,183
North Norfolk	8,078,944	229,864	8,308,808
South Norfolk	9,657,468	170,855	9,828,323
	59,208,969	1,421,433	60,630,402

Vaulation Band	Council Tax 2016/17
	£
A	141.96
B	165.62
C	189.28
D	212.94
E	260.26
F	307.58
G	354.90
H	425.88

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

(ii) Where a surplus on collection of 2015/16 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 2016 to February 2017 precept payments.

(iii) Where a deficit on collection of 2015/16 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 2016 to February 2017 precept payments.