REPORT TO THE NORFOLK POLICE AND CRIME PANEL
4 FEBRUARY 2020

PROPOSED PRECEPT FOR 2020/21

Executive Summary

This report outlines the budget and financial impact of the three 2020/21 precept options upon which the Police and Crime Commissioner has consulted.

1. To freeze council tax
2. To increase council tax by 1.99% per annum at Band D (£5.04).
3. To increase council tax by 3.95% per annum at Band D (£9.99).

NB Increases of £10.00 or more would trigger a local referendum.

The report also sets out the Medium Term Financial Plan (MTFP) 2020/21 to 2023/24 including the Capital Programme, together with various Financial Strategies that must be published by the PCC. A high level summary of the three options is set out in the tables below. See Appendix B (i) for more detail.

Option 1 – Freeze Council Tax

Council Tax Freeze	**Budget 2020/21**	**Forecast 2021/22**	**Forecast 2022/23**	**Forecast 2023/24**
	£000	£000	£000	£000
Total Funding (Grant + Precept)	(171,690)	(173,240)	(175,999)	(178,852)
Net Revenue Budget before changes and savings	163,913	169,721	174,065	178,511
REVENUE SURPLUS BEFORE KNOWN CHANGES	**(7,777)**	**(3,519)**	**(1,934)**	**(341)**
Known / Expected Changes	12,404	9,960	9,221	10,496
Planned use of reserves	(3,249)	(10)	815	48
REVENUE DEFICIT BEFORE SAVINGS	**1,378**	**6,432**	**8,102**	**10,203**
Planned Savings	(1,332)	(1,759)	(1,787)	(1,815)
Savings to be identified	(46)	(4,673)	(6,315)	(8,388)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

Under this option, despite the increase in government funding for officers, the Constabulary would need to make cuts in key areas of its budget to enable it to fund the growing cost of providing policing services and balance its budget. There is no opportunity to make this level of savings without a significant impact on service delivery.

Option 2 – Increase Council Tax by 1.99% per annum (£5.04)

1.99% Council Tax increase	**Budget**	**Forecast**	**Forecast**	**Forecast**
	2020/21	**2021/22**	**2022/23**	**2023/24**
	£000	£000	£000	£000
Total Funding (Grant + Precept)	(173,200)	(174,799)	(177,610)	(180,515)
Net Revenue Budget before changes and savings	163,913	169,721	174,065	178,511
REVENUE SURPLUS BEFORE KNOWN CHANGES	**(9,287)**	**(5,078)**	**(3,545)**	**(2,004)**
Known / Expected Changes	13,868	11,461	10,759	12,072
Planned use of reserves	(3,249)	(10)	815	48
REVENUE DEFICIT BEFORE SAVINGS	**1,332**	**6,373**	**8,030**	**10,116**
Planned Savings	(1,332)	(1,759)	(1,787)	(1,815)
Savings to be identified	(0)	(4,614)	(6,243)	(8,301)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

Under this option, despite the increase in government funding for officers, the Constabulary would be ‘treading water only’ to meet inflation-related cost pressures and would not be able to invest in and improve the broader services it provides to Norfolk communities.

Option 3 – Increase Council Tax by 3.95% per annum (£9.99)

3.95% (£9.99) Council Tax increase	**Budget**	**Forecast**	**Forecast**	**Forecast**
	2020/21	**2021/22**	**2022/23**	**2023/24**
	£000	£000	£000	£000
Total Funding (Grant + Precept)	(174,682)	(176,331)	(179,192)	(182,150)
Net Revenue Budget before changes and savings	163,913	169,721	174,065	178,511
REVENUE SURPLUS BEFORE KNOWN CHANGES	**(10,769)**	**(6,610)**	**(5,128)**	**(3,639)**
Known / Expected Changes	15,350	12,972	12,301	13,645
Planned use of reserves	(3,249)	(10)	815	48
REVENUE DEFICIT BEFORE SAVINGS	**1,332**	**6,353**	**7,989**	**10,055**
Planned Savings	(1,332)	(1,759)	(1,787)	(1,815)
Savings to be identified	(0)	(4,594)	(6,202)	(8,240)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

Under this option, the PCC would be able to provide additional funding of £1.5m to the Constabulary to invest in and improve services and agree funding options with the Chief Constable from the following areas:

- An improved service for the public when reporting crime to our control room
- Increased investigative capacity to help further improve the quality of some of our frontline investigations and bring offenders to justice
- Investment in long-term crime prevention in the areas of domestic abuse, sexual violence, county lines drug dealing, programmes for children and young people to prevent them becoming victims or involved in crime
- 21st century technology, including further ANPR capabilities to support the successful Operation Moonshot teams leading to more arrests and prosecutions
- Developing the skills of the workforce to meet the challenges of policing in the 21st century

Recommendation

It is recommended that the Police and Crime Panel:

a) notes the Revenue Budget and Capital Programme for 2020/21, the Medium-Term Financial Plan 2020/21 to 2023/24 and the funding and financial strategies, and

b) endorses the Police and Crime Commissioner's proposed precept for 2020/21, which the Panel will be notified of by 1 February 2020 (the statutory deadline).

CONTENTS

Section		Page

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 Police and Crime Commissioner's (PCC) 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 priorities, including; 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 strategic 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. He has also considered views from the community, key stakeholders and public sector bodies. The results of the PCC's budget consultation are included as an appendix to this report.

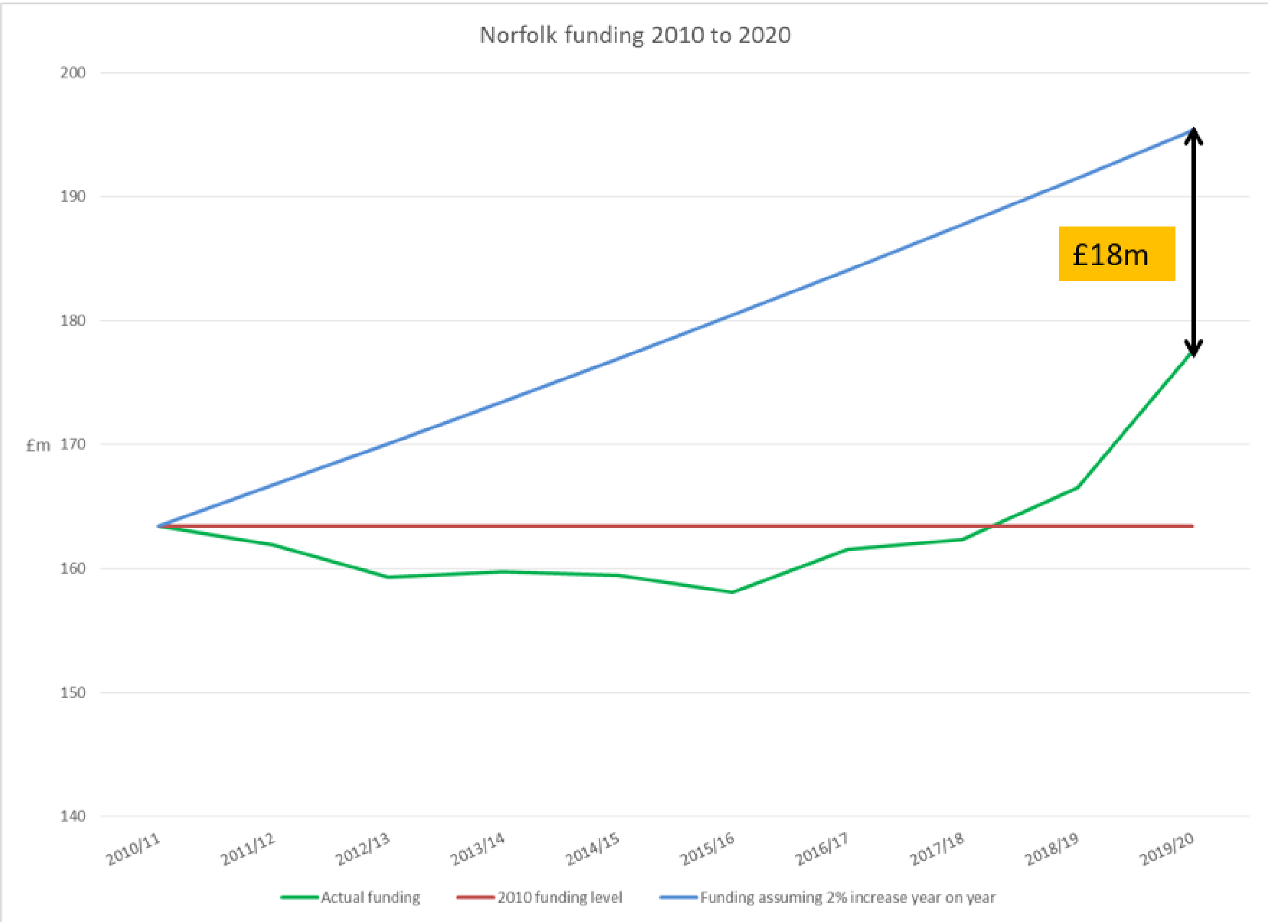
1.6 In accordance with the requirements of the Police and Crime Panel (Precepts and Chief Constable Appointments) Regulations 2012, a precept is proposed for 2020/21.

1.7 This will be the final precept proposal from the current PCC. The election for a new PCC will take place on 7th May 2020 and then consequently a new Police and Crime Plan will be drawn up. This will be for the next four years and funding requirements will be assessed in the usual manner in time for the precept discussions in January/February 2021.

2. The Funding Context

2.1 The police service has been through 10 years of austerity. The table below shows the amount of cash received by Norfolk Constabulary from the main Home Office grant, precept from households in Norfolk, plus all specific grants. Cash levels only exceeded those of 2010/11 for the first time in 2018/19. The blue line represents the amount of money the force would have received if their grants and precept had risen broadly in line with inflation of 2% each year.

2.2 This shows that the force has absorbed approximately £18m of inflation over that time. When you add the impact of other statutory and legislative changes that have increased costs to the organisation (e.g increases to National Insurance, Pensions, Insurance tax, the introduction of the Bail Act) and further add in the changing nature of crime that requires more expensive investigations, the amount the force has absorbed is significantly higher.



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 2018/19 Norfolk Constabulary has saved nearly £33m. In 2019/20 it will save another £2m and in the new MTFP period 2020/24 savings of nearly £2m have been identified. This brings total savings to nearly £37m (annually recurring) over the last 10 years.

3. Grant Settlement

3.1 In recent years government has only issued one-year funding settlements for PCCs, and force-by-force provisional detailed grant announcements are normally 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. This year has been even more challenging given the timing of the General Election, on 12th December 2019, that has resulted in the delay of the grant announcement until January.

3.2 The election returned a Conservative majority. As a result, the planned funding of 20,000 additional officers (known as Operation Uplift) across Police Forces in England and Wales is now being taken forward.

3.3 The funding of the first 6,000 officers was announced in the Spending Round 2019 by the Chancellor Sajid Javid on the 4th September 2019. The first year of funding that is being allocated directly to PCCs is £700m nationally, with £168m being ringfenced for the recruitment of officers. This is the largest increase in funding to police for a decade and is welcome following a decade of austerity.

3.4 The detailed force-by-force announcement was made on 22nd January 2020. The proposals in this report are based on the grant settlement for Norfolk, final local tax base figures and planning assumptions regarding future funding levels, on-going commitments and capital expenditure plans.

3.5 The table below provides a comparison between the 2020/21 grant settlement and 2019/20 figures.

	2019/20	2020/21	Variance	
	£000	£000	£000	%
Police Core Grant	79,524	85,476	5,952	7.5%
Legacy Council Tax Grants	9,305	9,305	0	0%
Total all Grants	**88,829**	**94,781**	**5,952**	**6.7%**

3.6 In addition to the general grant funding outlined above, a specific grant of £1.879m is to be received to cover costs relating to Operation Uplift and the increase in the number of officers.

3.7 Also, 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 and has been maintained as 2019/20 levels for one more year (see paras 5.19 – 5.24).

3.8 As a result of this increase, central government expects "the police to achieve measurable improvements across a range of outcomes with the National Policing Board, chaired by the Home Secretary, holding the sector to account for delivering these improvements".

3.9 In terms of precept, the written ministerial statement issued by the Minister of State for Policing and Fire, Kit Malthouse, said "*We propose to empower PCCs to increase their Band D precept by up to £10 in 2020/21 without the need to call for a referendum, the equivalent of less than twenty pence a week".*

3.10 In the written statement the government is clear that policing must continue to focus on improving efficiency and productivity, so that it can be shown to local communities that forces are getting the most out of the increase in funding.

3.11 On top of this there are a number of expectations that the Minister sets out in the Written Ministerial Statement and the PCC and Chief Constable are committed to supporting these, and will engage with the Home Secretary in taking improvements forward with the aim to securing a positive outcome from the forthcoming Spending Review.

3.12 However, the settlement did not outline the levels of future funding within the statement, and it is also uncertain as to what Norfolk's allocation will be of the remaining 14,000 Uplift officers, so no estimate has been included at this point for either the cost or funding of a further uplift.

3.13 Therefore, from a prudent basis, and due to the uncertainty of the Spending Review and the possibility of a Funding Formula review, the assumptions for future years are a return to 2% precept limits, "cash flat" central grant funding and the loss of the Pension Grant as this is only confirmed for one more year.

3.14 As a result of returning to prudent assumptions, and due to the impact of inflation and the full year impact of cost pressures, significant deficits are shown in those future years. Contingency plans will need to be made to understand how costs could be reduced to meet these deficits, while at the same time working with the Home Office to secure a positive Spending Review outcome as outlined above.

Grant damping and the Police Funding Formula

3.15 Due to the issues in parliament in regard to Exiting the EU and the subsequent timing of the election, there has been no progression on a new funding formula. As a result there were no changes to grant damping for 2020/21 and all PCCs' core Home Office grant funding has increased by 7.5% compared to 2019/20.

4. Council Tax Income

4.1 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 fund. Districts have estimated the 2019/20 surplus attributable to the PCC will be £1.119m receivable in 2020/21.

4.2 The provisional Council Tax base figures provided by the District Councils show an increase of 1.39%. The final figures, which are then notified to the Government, will not be available until the end of January 2020.

4.3 63% of properties in Norfolk are in Bands A to C, i.e. below Band D.

5. Medium Term Financial Plan (MTFP)

5.1 The budget and MTFP are constructed as follows:-

- The base 2019/20 budget (funding current activity) is rolled forward and repriced. The full year effect of any 2019/20 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 17 and 18).
- Known/Expected Changes are then added. These include statutory changes (e.g. pension contributions), investments as a result of increased grant and / or precept, service developments (other unavoidable base budget pressures), capital financing costs (of the revised capital programme) and finally any growth required as a result of the financial planning and scrutiny process.
- 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.

5.2 The MTFP remains consistent. It provides for pay and price increases, growth to meet demand and service pressures, a change programme to make the required efficiencies, and use of reserves to support one off costs, including invest to save measures and the continued investment in modernising technology to help boost productivity.

5.3 The following financial planning assumptions have been used.

	Budget 2020/21	**Forecast 2021/22**	**Forecast 2022/23**	**Forecast 2023/24**
Police main grant change	7.5%	0%	0%	0%
Legacy council tax grants change	0%	0%	0%	0%
Council taxbase change	1.39%	1.5%	1.5%	1.5%
Collection fund surplus	£1.119m	-	-	-
Pay awards - officers	2.5%	3%	3%	3%
Pay awards - staff	2.5%	3%	3%	3%
Non-pay inflation (average)	1.5%	2%	2%	2%

5.4 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.

	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%	0.7
Pay awards staff (full year impact)	1.0%	0.5
Non-pay inflation	1.0%	0.4

The Service and Financial Planning Process

5.5 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 2020) since its inception. A significant element of that programme has been delivered through collaboration with Suffolk Constabulary (see paragraph 7.4 – 7.7).

5.6 A joint (Norfolk and Suffolk) strategic financial planning process has been on-going over recent months in accordance with an agreed timetable. An enhanced process has been developed using Outcome Based Budgeting (OBB) principles. This is the fourth year that OBB has been used and information from the Force Management Statement (FMS) for Norfolk continues to be a key driver underpinning the process. The FMS is a strategic document that examines current and future demand, and potential future asset shortfalls, and the resultant potential risks for the services provided by Norfolk Constabulary. Detailed business cases will now be prepared to realise efficiencies and productivity gains during 2020/21 and 2021/22.

5.7 OBB is a method for aligning budgets to demand, performance, outcomes and priorities. This approach analyses the spending of the entire Force. This information is then lined up against the priorities and demands of the FMS and Police and Crime Plan. This allows projects to be developed to target areas that can be made more efficient, as well as reviewing areas requiring more investment.

5.8 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 has also been developed.

5.9 These outputs were then presented to the Chief Constables, 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.

5.10 Given the ongoing drive for increasing productivity and efficiency it is clear that the Change Programme will need to be sustained over the medium-term so that efficiency gains can be driven out in a timely fashion to ensure budgets are balanced, reserves levels are protected and equally importantly that the expectations of central government can be met following the increased funding settlement.

5.11 The PCC has also reviewed the OPCCN budget and has adjusted this to reflect the increase in responsibilities the PCC and Office have been tasked with by Government. In addition with the rising demand for preventative services the commissioning budget has been increased to ensure that there is support for victims and ensuring the criminal justice system alongside community safety can operate effectively.

Service and Funding Pressures

A. Rising and Changing Demand

5.12 The operational backdrop to the MTFP is a continuing 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.

5.13 As a result Norfolk Constabulary was facing significant demand pressures which were becoming a threat to the levels of service, with continuing budget pressures. The Uplift of 20,000 police officers should help reduce (but not eliminate) this pressure, and this will be kept under review.

5.14 This year has seen every element pledged in the Norfolk 2020 policing model business case being implemented by October 8th 2019. This means there are now more SNT Patrol Officers and more officers per shift every day. This also includes three World Class Policing Award winning Operation Moonshot Teams protecting the county and disrupting criminality; five neighbourhood policing teams; additional officers targeting local criminality and county lines; maintaining the Safer Schools Partnership; increasing the number of Beat Managers and dedicated Safer Neighbourhood Sergeants.

5.15 Efforts continue to maximise the visibility and productivity of our resources. Mobile working continues to gather momentum. The nationally recognised Project Servator has been introduced to boost our engagement skills as well as heighten our criminal disruption.

5.16 However, demands continue to rise. 999 calls are still increasing (115,000 in the last year compared to 106,000 in the previous year) while the number of calls received to 101 has not reduced. This is despite our improved website services which have seen a significant uptake. The Department for Local Policing, which developed the Norfolk 2020 Policing Model, are now engaged in the demand management review with a particular focus on the Contact and Control Room and the management of volume crime.

5.17 The Norfolk 2020 proposals also fundamentally changed the investigations structures. The Constabulary’s implementation of the investigations hubs is gathering momentum. In Swaffham, buildings are under construction, and in

Broadland, the permission to purchase land and submit planning permission has just been obtained from the PCC. The first building will be complete in July 2020, with the Broadland Police Station projected to be opened in late 2021 / early 2022. This move brings the detective teams back together, transforms investigations with the implementation of a new Police Digital Investigator (PDI) role and delivers first class facilities to carry out the complex work.

5.18 Norfolk, as with most Forces, has seen continued increases in serious sexual offences (14%)*, drugs supply offences (12%)* and domestic violence crimes (21%)*. However, the number of serious violent 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. The PDI will assist the detectives in unlocking the lines of enquiry amongst the multiple sources of data in our modern day lives.

B. Pensions

5.19 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.

5.20 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".

5.21 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 cost pressure for Norfolk).

5.22 Last year proposals by the Treasury outlined another increase to employer contribution rates that would have seen a significant increased requirement for funding the "gap" being passed on to PCCs and Constabularies to find, as initially there was to be no corresponding increase in funding to cover this. The increase nationally was £302m.

5.23 Following that 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).

5.24 These counter arguments were listened to and the government funded around half of this increase (£153m), with the remainder being funded by PCCs. The Pension grant to Norfolk is £1.564m and this has been maintained as part of the 2020/21 settlement. Prudently, the modelling for later years assumes that this grant is not maintained, as this will be revisited as part of the Spending Review.

C. Pay and non-pay inflation

5.25 The restraint on increases in pay to public services has been removed, 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 3% each year. Non-pay inflation on average continues to be under or around 2%, and is forecast to remain around 2% over the life of the MTFP, and all of this means additional costs, approaching £3.8m, in 2020/21.

D. Maintaining investment in modernising technology

5.26 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, improving efficiency will be key to future positive Spending Review outcomes.

Capital Programme and Financing 2020/24

5.27 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.

5.28 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.

5.29 As flagged in the last three 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%, with a further £8m acquired at the end of March 2019 at 2.35%. Further borrowing will be required over the period of the MTFP. More details are in Appendix G.

5.30 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.

5.31 Since 2015/16 Home Office capital grant has reduced from over £1m to £0.1m. This means each year an additional £0.9m has had to be funded from reserves or the revenue budget.

5.32 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, mobile devices and automatic number plate recognition (ANPR)) 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.

5.33 There are also a number of key developments coming through national police ICT programmes (known as the National Enabling Programme). These include required investments in Office 365 / Windows 10; National Law Enforcement Data Service; Home Office Biometrics and others. Delays to the Emergency Services Network (replacing Airwave) have led to a required refresh of ageing Airwave devices as waiting for ESN was no longer viable.

5.34 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 page 22) as well as the Capital and Reserves Strategies (see Appendices D and F).

5.35 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 will require it and will certainly be explored more as the 7 Forces review further convergence on the ICT model. 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 reduced. Developments in this area will continue to be monitored and incorporated into future plans.

5.36 The proposed capital programme has been updated to 2023/24 and is set out in detail at Appendix E. The revenue consequences of the proposed capital programme have been fully taken into account in preparing the MTFP.

5.37 The table below summarises the Capital Programme 2020/24.

	2020/21	**2021/22**	**2022/23**	**2023/24**
	£000	**£000**	**£000**	**£000**
Estates schemes	16,493	50	2,235	0
ICT (Norfolk only)	1,352	397	610	845
Norfolk share of Joint ICT Schemes & Projects	5,833	2,745	2,005	2,063
Vehicles and Equipment	805	697	705	898
Total	**24,483**	**3,889**	**5,555**	**3,806**

Note: The 2020/21 total includes £10.8m estimated as requiring carry forward from 2019/20.

5.38 The Capital Programme for 2020/21 is arranged in 2 tables:-

Table A Schemes or technical refresh programmes approved for immediate start in 2020/21.

Table B Schemes requiring a business case or further report to the CC(s)/PCC(s) for approval.

5.39 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

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

	2020/21 £000	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**
Grant	143	100	100	100
Capital Receipts	1,445	1,370	820	45
Revenue	3,142	2,900	2,900	2,900
Use of Reserves	3,460	-531	-501	761
Internal/External Borrowing	16,293	50	2,235	
Total	**25,483**	**3,889**	**5,555**	**3,806**

6. The Precept Options 2020/21

6.1 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).

6.2 **Option 1** – Freeze Council Tax

Council Tax Freeze	Budget 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24
	£000	£000	£000	£000
Total Funding (Grant + Precept)	(171,690)	(173,240)	(175,999)	(178,852)
Net Revenue Budget before changes and savings	163,913	169,721	174,065	178,511
REVENUE DEFICIT BEFORE KNOWN CHANGES	**(7,777)**	**(3,519)**	**(1,934)**	**(341)**
Known / Expected Changes	12,404	9,960	9,221	10,496
Planned use of reserves	(3,249)	(10)	815	48
REVENUE DEFICIT BEFORE SAVINGS	**1,378**	**6,432**	**8,102**	**10,203**
Planned Savings	(1,332)	(1,759)	(1,787)	(1,815)
Savings to be identified	(46)	(4,673)	(6,315)	(8,388)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

Under this option, despite the increase in government funding for officers, the Constabulary would need to make cuts in key areas of its budget to enable it to fund the growing cost of providing policing services and balance its budget. Following a decade of real term reductions in police funding and having been assessed as outstanding for efficiency, there is no opportunity to make this level of savings without a significant impact on service delivery.

6.3 **Option 2** – Increase Council Tax by 2% per annum (£5.04)

1.99% Council Tax increase	Budget 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24
	£000	£000	£000	£000
Total Funding (Grant + Precept)	(173,200)	(174,799)	(177,610)	(180,515)
Net Revenue Budget before changes and savings	163,913	169,721	174,065	178,511
REVENUE DEFICIT BEFORE KNOWN CHANGES	**(9,287)**	**(5,078)**	**(3,545)**	**(2,004)**
Known / Expected Changes	13,868	11,461	10,759	12,072
Planned use of reserves	(3,249)	(10)	815	48
REVENUE DEFICIT BEFORE SAVINGS	**1,332**	**6,373**	**8,030**	**10,116**
Planned Savings	(1,332)	(1,759)	(1,787)	(1,815)
Savings to be identified	(0)	(4,614)	(6,243)	(8,301)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

Under this option, despite the increase in government funding for officers, the Constabulary would be ‘treading water only’ to meet inflation-related cost pressures and would not be able to invest in and improve the broader services it provides to Norfolk communities.

6.4 **Option 3** – Increase Council Tax by 3.95% per annum (£9.99)

3.95% (£9.99) Council Tax increase	**Budget 2020/21**	**Forecast 2021/22**	**Forecast 2022/23**	**Forecast 2023/24**
	£000	£000	£000	£000
Total Funding (Grant + Precept)	(174,682)	(176,331)	(179,192)	(182,150)
Net Revenue Budget before changes and savings	163,913	169,721	174,065	178,511
REVENUE SURPLUS BEFORE KNOWN CHANGES	**(10,769)**	**(6,610)**	**(5,128)**	**(3,639)**
Known / Expected Changes	15,350	12,972	12,301	13,645
Planned use of reserves	(3,249)	(10)	815	48
REVENUE DEFICIT BEFORE SAVINGS	**1,332**	**6,353**	**7,989**	**10,055**
Planned Savings	(1,332)	(1,759)	(1,787)	(1,815)
Savings to be identified	(0)	(4,594)	(6,202)	(8,240)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

Under this option, the PCC would be able to provide additional funding of £1.5m to the Constabulary to build on the additional officer numbers funded by central government, invest in and improve services and agree funding options with the Chief Constable from the following areas:

- An improved service for the public when reporting crime to our control room
- Increased investigative capacity to help further improve the quality of some of our frontline investigations and bring offenders to justice
- Investment in long-term crime prevention in the areas of domestic abuse, sexual violence, county lines drug dealing, programmes for children and young people to prevent them becoming victims or involved in crime
- 21st century technology, including further ANPR capabilities to support the successful Operation Moonshot teams leading to more arrests and prosecutions
- Developing the skills of the workforce to meet the challenges of policing in the 21st century

6.5 Appendix C shows a high level analysis of the Net Budget and Forecasts for the 3 options.

6.6 Details of the precept to be levied on the collection authorities are set out in Appendices H – J (Options 1 – 3).

7. Statutory Assurances and Strategies

Robustness of the Budget

7.1 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.

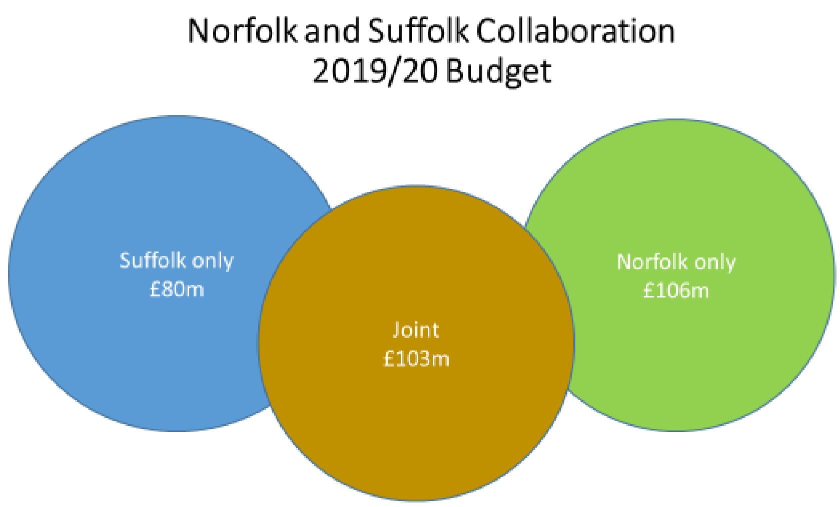
7.2 The comprehensive Service and Financial Planning process has resulted in the development of the various savings proposals and programmes. This has involved Chief Officers, Finance and the Programme Management Office (PMO) from both Norfolk and Suffolk Constabularies, maintaining financial clarity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

7.3 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.

Collaboration and the Change Programme

7.4 Norfolk and Suffolk Constabularies have been collaborating for a decade. In the period to 2019/20, 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.

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



7.6 As part of the Service and Financial Planning process for 2020/21 to 2023/24, savings have been identified from the collaborative units (Norfolk's share is £1.3m rising to £1.8m by 2023/24). These have been assessed in terms of risks and impact on outcomes using the OFRA tool Budgeting (OBB) model that uses OBB principles. Detailed business cases will now be prepared to realise these savings during 2020/21 and 2021/22.

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

Regional Collaboration

7.8 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 developed 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.

7.9 A business case was developed and approved by PCCs and CCs to bring together a regional 7 Force Commercial Procurement Team. The regional team has been implemented and went "live" on 6th January 2020. This team will ensure that where possible, 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".

7.10 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.

7.11 Other 7 Force opportunities are being explored including a review of how enhanced collaboration on 7 Force ICT could be delivered, the opportunities for wider collaboration on Shared Services more generally, as well as specific workstreams on functions such as Vetting, and the implementation of systems across a 7 Force model, for example using the Chronicle application to deliver improvements in terms of governance and control around workforce skills information.

7.12 Some of the issues listed above would require significant investment and are subject to business cases. With PCC elections due in May 2020, and with three of the seven current PCCs not standing again, no decisions are expected on these key investments until after the election has taken place.

Risk and Efficiency

7.13 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 through a Strategic Risk register.

7.14 The Chief Constable's Strategic 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.

7.15 The main risks that may impact upon the delivery of the 2020/21 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.

7.16 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

7.17 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 positive Spending Review outcomes. 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.

Annual Treasury Management Strategy 2020/21

7.18 Government regulations require the PCC to approve the investment and borrowing strategies and borrowing limits for 2020/21 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

7.19 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.

7.20 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).

7.21 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 2020/21 are provided in Annex 1 to Appendix G. Progress against the indicators will be monitored throughout the year.

Minimum Revenue Provision (MRP)

7.22 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.

7.23 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 is set out in Annex 2 to Appendix G.

Adequacy of Reserves

7.24 The Home Office has introduced 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.

7.25 This budget report provides 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 between 2.5% - 3% of net revenue budget and total reserves at 6% net budget as a minimum. Norfolk’s total reserves are forecast to reduce from £16.4m (10% of budget) as at 31/3/19 to around £15.8m (8.6% of budget) by 31/3/24. Reserves have had a one-off injection of £2.8m due to a successful PFI refinancing exercise, and therefore are not forecast to reduce as much as otherwise expected, although plans will be made in the future as to how to reinvest this money.

7.26 Through continued sound financial management the PCC has set aside earmarked reserves to meet future spending needs. More details are set out in the Reserve Strategy in Appendix F.

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

Chief Finance Officer’s Section 25 Assurances

7.28 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 (as outlined in the rest of section 7 on pages 19 - 22).

7.29 The PCC CFO, in partnership with the CC CFO, confirms that all the required statutory assurances can be made.

8. Conclusion

8.1 This report outlines three options for the proposed precept and the medium term financial plan for the period 2020/21 to 2023/24.

8.2 Option 1 would result in further cuts from key constabulary services, while Option 2 would see the Constabulary "tread water" without being able to use precept to invest in further improvements. Option 3 results in the ability to protect front line policing, protect reserves and invest in additional capacity and capability to improve the services to Norfolk communities.

Police Grant 2020/21

1. The changes in Government funding for 2020/21 are set out in the table below:

	2019/20	2020/21	Variance	
	£000	£000	£000	%
Police Core Grant	79,524	85,476	5,952	7.5%
Legacy Council Tax Grants	9,305	9,305	0	0%
Total all Grants	**88,829**	**94,781**	**5,952**	**6.7%**

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.

4. The Home Office has “re-allocated” (top sliced) £1,121m in total from the national grant pot (an increase of £92m compared to last year). This funding is used to centrally fund organisations such as the National Crime Agency, invest into Police Technology Programmes, and fund a number of other Home Office initiatives.

Appendix B (i)

Budget and Medium Term Financial Plan 2020/24

Option 1 – Council Tax Freeze

		Line	Budget 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24
			£000	£000	£000	£000
REVENUE FUNDING						
	Home Office Grant	1	(85,476)	(85,476)	(85,476)	(85,476)
	Legacy Council Tax Grants	2	(9,305)	(9,305)	(9,305)	(9,305)
	Precept Income	3	(76,909)	(78,459)	(81,218)	(84,071)
TOTAL FUNDING		4	**(171,690)**	**(173,240)**	**(175,999)**	**(178,852)**
BASE REVENUE BUDGET INCLUDING INFLATION:						
	Total Revenue Expenditure before savings	5	182,062	186,441	190,923	195,511
	Revenue Funding of Capital Expenditure	6	2,618	2,618	2,618	2,618
	Total Revenue Income inc Specific Grants	7	(20,767)	(19,338)	(19,477)	(19,619)
NET REVENUE BUDGET BEFORE KNOWN CHANGES AND SAVING		8	**163,913**	**169,721**	**174,065**	**178,511**
DEFICIT / (SURPLUS) BEFORE KNOWN CHANGES		9	**(7,777)**	**(3,519)**	**(1,934)**	**(341)**
	Known / Expected Changes	10	12,404	9,960	9,221	10,496
	Planned use of reserves	11	(3,249)	(10)	815	48
REVENUE DEFICIT BEFORE SAVINGS		12	**1,378**	**6,432**	**8,102**	**10,203**
	Change Programme Savings	13	(1,332)	(1,759)	(1,787)	(1,815)
	Savings to be identified	14	(46)	(4,673)	(6,315)	(8,388)
	Total Cumulative Permanent Savings	15	**(1,378)**	**(6,432)**	**(8,102)**	**(10,203)**
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS		16	**0**	**0**	**0**	**0**

Option 2 – Increase Council Tax by 2% per annum (£5.04)

		Line	Budget 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24
			£000	£000	£000	£000
REVENUE FUNDING						
	Home Office Grant	1	(85,476)	(85,476)	(85,476)	(85,476)
	Legacy Council Tax Grants	2	(9,305)	(9,305)	(9,305)	(9,305)
	Precept Income	3	(78,419)	(80,018)	(82,829)	(85,734)
TOTAL FUNDING		4	**(173,200)**	**(174,799)**	**(177,610)**	**(180,515)**
BASE REVENUE BUDGET INCLUDING INFLATION:						
	Total Revenue Expenditure before savings	5	182,062	186,441	190,923	195,511
	Revenue Funding of Capital Expenditure	6	2,618	2,618	2,618	2,618
	Total Revenue Income inc Specific Grants	7	(20,767)	(19,338)	(19,477)	(19,619)
NET REVENUE BUDGET BEFORE KNOWN CHANGES AND SAVING		8	**163,913**	**169,721**	**174,065**	**178,511**
DEFICIT / (SURPLUS) BEFORE KNOWN CHANGES		9	**(9,287)**	**(5,078)**	**(3,545)**	**(2,004)**
	Known / Expected Changes	10	13,868	11,461	10,759	12,072
	Planned use of reserves	11	(3,249)	(10)	815	48
REVENUE DEFICIT BEFORE SAVINGS		12	**1,332**	**6,373**	**8,030**	**10,116**
	Change Programme Savings	13	(1,332)	(1,759)	(1,787)	(1,815)
	Savings to be identified	14	(0)	(4,614)	(6,243)	(8,301)
	Total Cumulative Permanent Savings	15	**(1,332)**	**(6,373)**	**(8,030)**	**(10,116)**
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS		16	**0**	**0**	**0**	**0**

Appendix B (i)

Budget and Medium Term Financial Plan 2020/24

Option 3 – Increase Council Tax by 3.95% per annum (£9.99)

			Budget	Forecast	Forecast	Forecast
		Line	**2020/21**	**2021/22**	**2022/23**	**2023/24**
			£000	£000	£000	£000
REVENUE FUNDING						
	Home Office Grant	1	(85,476)	(85,476)	(85,476)	(85,476)
	Legacy Council Tax Grants	2	(9,305)	(9,305)	(9,305)	(9,305)
	Precept Income	3	(79,901)	(81,550)	(84,412)	(87,369)
TOTAL FUNDING		4	**(174,682)**	**(176,331)**	**(179,192)**	**(182,150)**
BASE REVENUE BUDGET INCLUDING INFLATION:						
	Total Revenue Expenditure before savings	5	182,062	186,441	190,923	195,511
	Revenue Funding of Capital Expenditure	6	2,618	2,618	2,618	2,618
	Total Revenue Income inc Specific Grants	7	(20,767)	(19,338)	(19,477)	(19,619)
NET REVENUE BUDGET BEFORE KNOWN CHANGES AND SAVING		8	**163,913**	**169,721**	**174,065**	**178,511**
DEFICIT / (SURPLUS) BEFORE KNOWN CHANGES		9	**(10,769)**	**(6,610)**	**(5,128)**	**(3,639)**
	Known / Expected Changes	10	15,350	12,972	12,301	13,645
	Planned use of reserves	11	(3,249)	(10)	815	48
REVENUE DEFICIT BEFORE SAVINGS		12	**1,332**	**6,353**	**7,989**	**10,055**
	Change Programme Savings	13	(1,332)	(1,759)	(1,787)	(1,815)
	Savings to be identified	14	(0)	(4,594)	(6,202)	(8,240)
	Total Cumulative Permanent Savings	15	**(1,332)**	**(6,353)**	**(7,989)**	**(10,055)**
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS		16	**0**	**0**	**0**	**0**

Appendix B(ii)

Analysis of Known/Expected Changes
Option 1

	Line	Budget	Forecast	Forecast	Forecast
		2020/21	2021/22	2022/23	2023/24
		£000	£000	£000	£000
STATUTORY CHANGES					
Rent and Housing Allowance Reductions	1	(200)	(300)	(400)	(400)
Variation in Bank Holiday Numbers (8 in 2019/20 then 9, 11, 9, 9)	2	166	498	166	166
Firearms Licensing Income	3	(103)	(97)	(75)	33
TOTAL STATUTORY CHANGES	4	**(137)**	**101**	**(309)**	**(201)**
INVESTMENT (Grant Funded Only)					
Officer uplift of 67 FTE	5	2,515	3,353	3,437	3,523
Staff roles to support uplift	6	939	1,412	1,448	1,484
Capital Investment to support uplift	7	357	400	400	400
TOTAL INVESTMENT	8	**3,811**	**5,165**	**5,285**	**5,407**
SERVICE DEVELOPMENTS					
7 Force Collaboration Contribution	9	175	180	186	191
Contractual Risk in respect of Airwave	10		285	285	285
PEQF - DHEP training costs	11	0	202	418	288
PEQF - Co-investment	12			77	77
Digital Mobile Workflow solution	13	171	171	171	171
Digital Asset Management System / Digital Evidence Transfer Syste	14	0	239	239	239
National Enabler Programme	15	142	141	140	68
Challenge Panel Process Review - Staff Pay	16	694	711	729	747
Challenge Panel Process Review - Non Pay	17	1,648	1,649	1,649	1,650
Commissioning Plan	18	542	160		
Temporary Pay growth	19	691			
TOTAL SERVICE DEVELOPMENTS	20	**4,063**	**3,558**	**3,708**	**3,526**
CAPITAL FINANCING					
Capital Programme Funding	21	3,460	169	(501)	761
Investment in modernising technology	22	935	650	650	650
Minimum Revenue Provision	23	83	130	204	216
Interest	24	189	186	185	138
TOTAL CAPITAL FINANCING	25	**4,667**	**1,135**	**538**	**1,765**
Total Changes Before Reserve Movement Adjustments	26	**12,404**	**9,960**	**9,221**	**10,496**
CONTRIBUTION TO RESERVES					
Loan Repayment Reserve	27	500	500	500	500
Capital Financing and Efficiency Improvement Reserve	28	428			500
CONTRIBUTION FROM RESERVES					
7 Force Collaboration Contribution	29	(175)	(180)	(186)	(191)
Capital Programme Funding	30	(3,460)	(169)	501	(761)
Financing Commissioning Plan	31	(542)	(160)		
NET RESERVE MOVEMENTS	32	**(3,249)**	**(10)**	**815**	**48**
Total Known / Expected Changes (net of reserve movements)	33	**9,155**	**9,951**	**10,036**	**10,544**

Appendix B(ii)

Analysis of Known/Expected Changes
Option 2

	Line	Budget 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000	Forecast 2023/24 £000
STATUTORY CHANGES					
Rent and Housing Allowance Reductions	1	(200)	(300)	(400)	(400)
Variation in Bank Holiday Numbers (8 in 2019/20 then 9, 11, 9, 9)	2	166	498	166	166
Firearms Licensing Income	3	(103)	(97)	(75)	33
TOTAL STATUTORY CHANGES	4	**(137)**	**101**	**(309)**	**(201)**
INVESTMENT (Grant Funded Only)					
Officer uplift of 67 FTE	5	2,515	3,353	3,437	3,523
Staff roles to support uplift	6	939	1,412	1,448	1,484
Capital Investment to support uplift	7	357	400	400	400
Core grant investment to support uplift	8	1,464	1,501	1,538	1,577
TOTAL INVESTMENT	9	**5,275**	**6,666**	**6,823**	**6,983**
SERVICE DEVELOPMENTS					
7 Force Collaboration Contribution	10	175	180	186	191
Contractual Risk in respect of Airwave	11		285	285	285
PEQF - DHEP training costs	12	0	202	418	288
PEQF - Co-investment	13			77	77
Digital Mobile Workflow solution	14	171	171	171	171
Digital Asset Management System / Digital Evidence Transfer Syste	15	0	239	239	239
National Enabler Programme	16	142	141	140	68
Challenge Panel Process Review - Staff Pay	17	694	711	729	747
Challenge Panel Process Review - Non Pay	18	1,648	1,649	1,649	1,650
Commissioning Plan	19	542	160		
Temporary Pay growth	20	691			
TOTAL SERVICE DEVELOPMENTS	21	**4,063**	**3,558**	**3,708**	**3,526**
CAPITAL FINANCING					
Capital Programme Funding	22	3,460	169	(501)	761
Investment in modernising technology	23	935	650	650	650
Minimum Revenue Provision	24	83	130	204	216
Interest	25	189	186	185	138
TOTAL CAPITAL FINANCING	26	**4,667**	**1,135**	**538**	**1,765**
Total Changes Before Reserve Movement Adjustments	27	**13,868**	**11,461**	**10,759**	**12,072**
CONTRIBUTION TO RESERVES					
Loan Repayment Reserve	28	500	500	500	500
Capital Financing and Efficiency Improvement Reserve	29	428			500
CONTRIBUTION FROM RESERVES					
7 Force Collaboration Contribution	30	(175)	(180)	(186)	(191)
Capital Programme Funding	31	(3,460)	(169)	501	(761)
Financing Commissioning Plan	32	(542)	(160)		
NET RESERVE MOVEMENTS	33	**(3,249)**	**(10)**	**815**	**48**
Total Known / Expected Changes (net of reserve movements)	34	**10,619**	**11,451**	**11,575**	**12,121**

Analysis of Known/Expected Changes
Option 3

	Line	Budget 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24
		£000	£000	£000	£000
STATUTORY CHANGES					
Rent and Housing Allowance Reductions	1	(200)	(300)	(400)	(400)
Variation in Bank Holiday Numbers (8 in 2019/20 then 9, 11, 9, 9)	2	166	498	166	166
Firearms Licensing Income	3	(103)	(97)	(75)	33
TOTAL STATUTORY CHANGES	4	**(137)**	**101**	**(309)**	**(201)**
INVESTMENT (Precept and Grant Funded)					
Officer uplift of 67 FTE	5	2,515	3,353	3,437	3,523
Staff roles to support uplift	6	939	1,412	1,448	1,484
Capital Investment to support uplift	7	357	400	400	400
Core grant investment to support uplift	8	1,464	1,501	1,538	1,577
Precept Investment (amount over 2%)	9	1,482	1,512	1,542	1,573
TOTAL INVESTMENT	10	**6,757**	**8,178**	**8,365**	**8,556**
SERVICE DEVELOPMENTS					
7 Force Collaboration Contribution	11	175	180	186	191
Contractual Risk in respect of Airwave	12		285	285	285
PEQF - DHEP training costs	13	0	202	418	288
PEQF - Co-investment	14			77	77
Digital Mobile Workflow solution	15	171	171	171	171
Digital Asset Management System / Digital Evidence Transfer Syste	16	0	239	239	239
National Enabler Programme	17	142	141	140	68
Challenge Panel Process Review - Staff Pay - non-uplift	18	694	711	729	747
Challenge Panel Process Review - Non Pay	19	1,648	1,649	1,649	1,650
Commissioning Plan	20	542	160		
Temporary Pay growth	21	691			
TOTAL SERVICE DEVELOPMENTS	22	**4,063**	**3,558**	**3,708**	**3,526**
CAPITAL FINANCING					
Capital Programme Funding	23	3,460	169	(501)	761
Investment in modernising technology	24	935	650	650	650
Minimum Revenue Provision	25	83	130	204	216
Interest	26	189	186	185	138
TOTAL CAPITAL FINANCING	27	**4,667**	**1,135**	**538**	**1,765**
Total Changes Before Reserve Movement Adjustments	28	**15,350**	**12,972**	**12,301**	**13,645**
CONTRIBUTION TO RESERVES					
Loan Repayment Reserve	29	500	500	500	500
Capital Financing and Efficiency Improvement Reserve	30	428			500
CONTRIBUTION FROM RESERVES					
7 Force Collaboration Contribution	31	(175)	(180)	(186)	(191)
Capital Programme Funding	32	(3,460)	(169)	501	(761)
Financing Commissioning Plan	33	(542)	(160)		
NET RESERVE MOVEMENTS	34	**(3,249)**	**(10)**	**815**	**48**
Total Known / Expected Changes (net of reserve movements)	35	**12,101**	**12,963**	**13,116**	**13,693**

Analysis of Savings

		Line	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000	Forecast 2023/24 £000
Change and Efficiency Savings:						
	As per challenge panels:					
	Pay (including inflation)	1	673	886	913	940
	Non-Pay	2	659	873	874	875
Total Change and Efficiency Savings		3	**1,332**	**1,759**	**1,787**	**1,815**
TOTAL PERMANENT SAVINGS AGAINST 2018/19 BASE		4	**1,332**	**1,759**	**1,787**	**1,815**

Appendix C

High Level Analysis of the Net Budget 2020/21

Option 1 – Council Tax Freeze

Year	OPCCN	PCC's Commissioning	Chief Constable	Capital Financing	Specific Home Office Grants	Use of Reserves	Net Budget
	£000	£000	£000	£000		£000	£000
2019/20	1,008	1,244	170,048	5,393	(12,211)	(700)	**164,782**
2020/21	1,209	1,589	177,165	7,286	(12,308)	(3,249)	**171,690**
			above includes savings to be found:		*£46*		
2021/22	1,247	1,207	177,885	3,754	(10,843)	(10)	**173,240**
			above includes savings to be found:		*£4,673*		
2022/23	1,283	1,047	180,643	3,157	(10,945)	815	**175,999**
			above includes savings to be found:		*£6,315*		
2022/24	1,314	1,047	183,110	4,383	(11,050)	48	**178,852**
			above includes savings to be found:		*£8,388*		

Option 2 – Increase Council Tax by 1.99% per annum (£5.04)

Year	OPCCN	PCC's Commissioning	Chief Constable	Capital Financing	Specific Home Office Grants	Use of Reserves	Net Budget
	£000	£000	£000	£000		£000	£000
2019/20	1,008	1,244	170,048	5,393	(12,211)	(700)	**164,782**
2020/21	1,209	1,589	178,674	7,286	(12,308)	(3,249)	**173,200**
2021/22	1,247	1,207	179,444	3,754	(10,843)	(10)	**174,799**
			above includes savings to be found:		*£4,614*		
2022/23	1,283	1,047	182,253	3,157	(10,945)	815	**177,610**
			above includes savings to be found:		*£6,243*		
2023/24	1,314	1,047	184,773	4,383	(11,050)	48	**180,515**
			above includes savings to be found:		*£8,301*		

Continued overleaf..

Appendix C

High Level Analysis of the Net Budget 2020/21

Option 3 – Increase Council Tax by 3.95% per annum (£9.99)

Option 3 - 3.95% increase							
Year	**OPCCN**	**PCC's Commissioning**	**Chief Constable**	**Capital Financing**	**Specific Home Office Grants**	**Use of Reserves**	**Net Budget**
	£000	**£000**	**£000**	**£000**		**£000**	**£000**
2019/20	1,008	1,244	170,048	5,393	(12,211)	(700)	**164,782**
2020/21	1,209	1,589	180,156	7,286	(12,308)	(3,249)	**174,682**
2021/22	1,247	1,207	180,976	3,754	(10,843)	(10)	**176,331**
			above includes savings to be found:		*£4,594*		
2022/23	1,283	1,047	183,836	3,157	(10,945)	815	**179,192**
			above includes savings to be found:		*£6,202*		
2022/24	1,314	1,047	186,407	4,383	(11,050)	48	**182,150**
			above includes savings to be found:		*£8,240*		

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, Assistant Chief Officers (ACOs – Chief Constable Section 151 officers) of Norfolk and Suffolk, Head of Finance, Head of Strategic Business Operational Services, Director of ICT, Senior HR Manager). 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 Final Business Cases and 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 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. A new Police and Crime Plan will be produced post May 2020 election, at which point a new PCC will be elected, as the current incumbent is not standing again.

4.2 To support the current plan and the future 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. The strategy will be reviewed in 2020 ahead of the PCC elections in light of the increased requirement for recruitment of officers and staff in respect of Operation Uplift, and in the light of increased housing growth in certain areas of Norfolk. The current and future 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. This will also be reviewed ahead of the PCC election, again in part to the increase in recruitment of officers and staff and the connected impact on the transport fleet. Vehicle replacement and procurement forms part of the current and future strategies and 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 current 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. As for the above strategies this will be reviewed ahead of the PCC elections in May 2020. The strategy 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 this.

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, Assistant Chief Officers (ACOs – Chief Constable Section 151 officers) 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 ACOs 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 factors;

- Mandation / statutory requirements – unavoidable projects i.e. mandated, statutory or contractually obliged,
- Strategic Alignment – alignment to the Police and Crime Plan, the Force Management Statement and the constabulary Strategic Assessment,
- 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 through the Corporate Shared Services Senior Leadership team meetings (chaired by the ACOs, with membership of Director of ICT, Head of Estates, Head of Transport, Head of Finance, Head of Transactional Services and with representation from the 7 Force Procurement team).

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 has reduced and will not be the 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 above 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 potentially run out, 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:

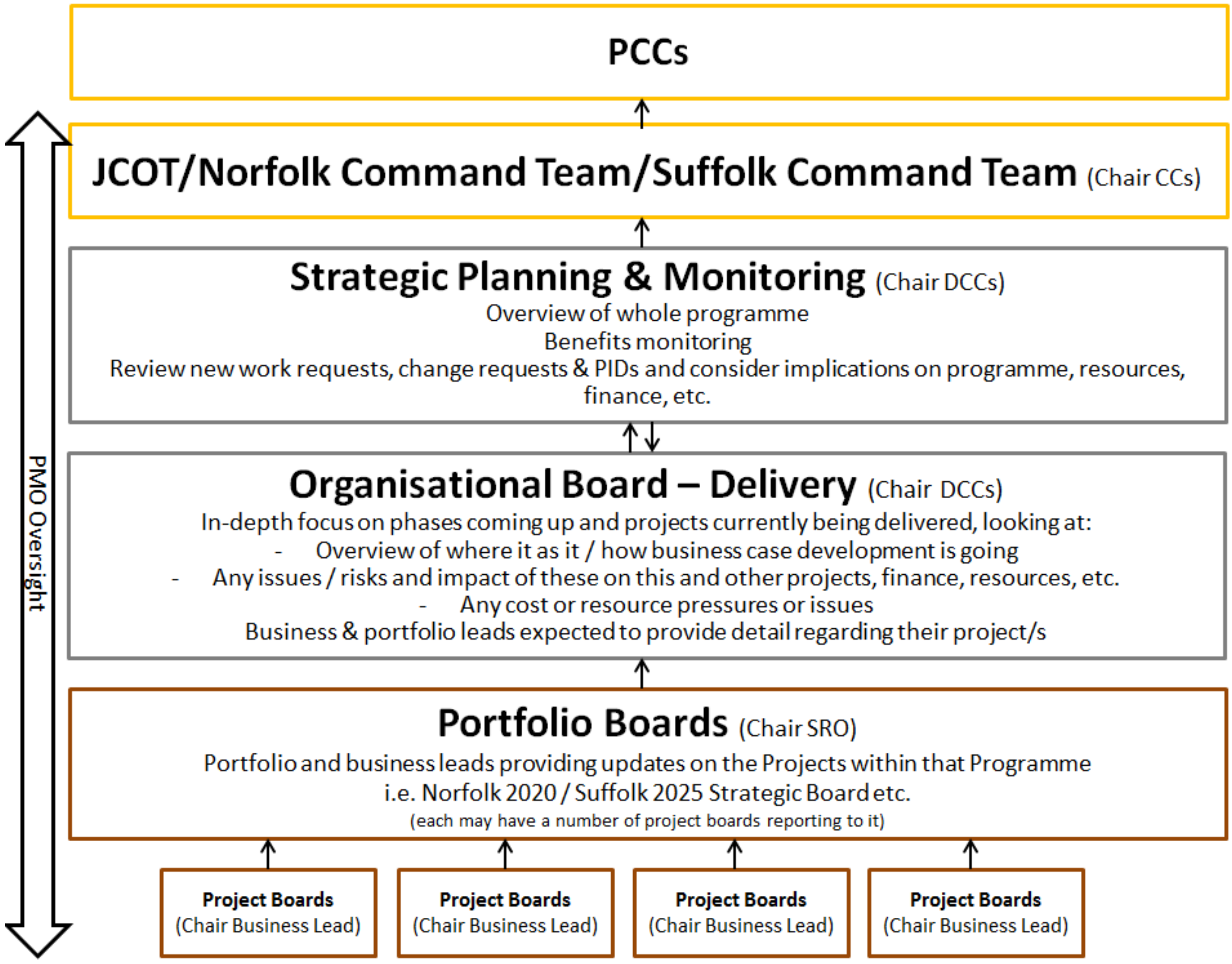
7.1 Capital grants received or capital receipts from asset sales generate cash balances and these are directly used to finance capital expenditure. Where in-year revenue funding of capital takes place, financing is made from in-year income sources.

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 Operational Command Centre (OCC – HQ) 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



Capital Programme 2020/24

CAPITAL - NORFOLK - 2020/21 - 2023/24								
PROJECT	Slippage assumed in 2019/20 monitoring	Additional Requirement in 2020/21	2020-21 Total Requirement		2021-22	2022-23	2023-24	4 Year Total
			Table A	Table B				
Attleborough - New Build at Fire Station.	692,650	85,350	778,000					778,000
Bethel Street - Remodelling.		0				2,235,000		2,235,000
2020 East Hub - Broadland Gate	5,727,659	6,000,000	11,727,659					11,727,659
2020 West Hub - Swaffham	2,838,635	500,000	3,338,635		50,000			3,388,635
Holt Fire Service Collaboration	121,000	0	121,000					121,000
Reepham Fire Service Collaboration	28,000	0	28,000					28,000
Training Accommodation		50,000		50,000				50,000
OCC CCR refurbishment		150,000		150,000				150,000
OCC WYMONDHAM CAR PARK WORKS	300,000	0		300,000				300,000
Total Estates - Norfolk Only	**9,717,944**	**6,775,350**	**15,993,294**	**500,000**	**50,000**	**2,235,000**	**0**	**18,778,294**
ICT Replacements - Desktop Services		636,000	636,000		255,000	467,600	752,800	2,111,400
ICT Replacements - Communications		92,000	92,000		92,000	92,000	92,000	368,000
ANPR Vehicle Kit Refresh		50,000	50,000		50,000	50,000	0	150,000
Computer Hardware Revenue Funded		0			0	0		0
Thin Client Replacement		74,000	74,000		0	0	0	74,000
ICT - Additional 2020 Requirements		500,000	500,000		0			500,000
Total ICT - Norfolk Only	**0**	**1,352,000**	**1,352,000**	**0**	**397,000**	**609,600**	**844,800**	**3,203,400**
Vehicle Replacement Programme		748,000	748,000	0	697,000	705,000	898,000	3,048,000
Athena		57,441	57,441					57,441
Total Equipment and Vehicle Replacements - Norfolk Only	**0**	**805,441**	**805,441**	**0**	**697,000**	**705,000**	**898,000**	**3,105,441**
Total Norfolk Only	**9,717,944**	**8,932,791**	**18,150,735**	**500,000**	**1,144,000**	**3,549,600**	**1,742,800**	**25,087,135**
Norfolk Share of Replacement Schemes	-	1,101,649	1,101,649	-	1,640,950	1,320,149	1,162,338	5,225,085
Norfolk Capital Programme	9,717,944	10,034,440	19,252,384	500,000	2,784,950	4,869,749	2,905,138	30,312,220
Norfolk Share of Joint Projects	1,046,214	3,684,899	2,124,996	2,606,117	1,104,434	684,450	900,481	7,420,479
Total Norfolk Capital Programme	**10,764,158**	**13,719,339**	**21,377,380**	**3,106,117**	**3,889,384**	**5,554,199**	**3,805,619**	**37,732,699**

Capital Financing is shown in the Tables at paragraph 5.39

Capital Programme 2020/24 (Contd.)

PROJECT	Slippage assumed in 2019/20 monitoring	Additional Requirement in 2020/21	2020-21 Total Requirement		2021-22	2022-23	2023-24	4 Year total
Joint ICT Replacement Schemes:			**Table A**	**Table B**				
ICT Tech Refresh:								
Joint ICT Replacements - Servers		884,000	884,000		1,112,000	621,700	777,000	3,394,700
Joint ICT Replacements - Communications		0						
ICT Replacements - Network		707,218	707,218		1,045,159	1,068,950	647,189	3,468,516
Microwave Refresh		40,000	40,000		40,700	36,400	26,000	143,100
ICT Tech refresh total	**0**	**1,631,218**	**1,631,218**	**0**	**2,197,859**	**1,727,050**	**1,450,189**	**7,006,316**
Mobile Telephony:								
Mobile Telephony - Recruitment Support								0
Mobile Device Replacement Programme		217,000	217,000		431,000	339,000	339,000	1,326,000
Total Mobile Telephony	**0**	**217,000**	**217,000**	**0**	**431,000**	**339,000**	**339,000**	**1,326,000**
Body Worn Video:								
BWV Replacement		84,500	84,500		84,500	84,500	84,500	338,000
BWV Device Refresh		0			165,500	165,500	165,500	496,500
Total Body Worn Video	**0**	**84,500**	**84,500**	**0**	**250,000**	**250,000**	**250,000**	**834,500**
ICT Replacement Schemes	**0**	**1,932,718**	**1,932,718**	**0**	**2,878,859**	**2,316,050**	**2,039,189**	**9,166,816**
Norfolk	**0**	**1,101,649**	**1,101,649**	**0**	**1,640,950**	**1,320,149**	**1,162,338**	**5,225,085**
Suffolk	**0**	**831,069**	**831,069**	**0**	**1,237,909**	**995,902**	**876,851**	**3,941,731**
Joint Projects Subject to Business Case:								
Video Conferencing	**150,000**	**100,000**	**0**	**250,000**	**0**	**0**	**0**	**250,000**
Airwave Handset Refresh		**1,438,000**	**1,438,000**					**1,438,000**
Covert Airwave Replacement		**108,000**	**108,000**					**108,000**
HTCU:								
Joint HTCU data centre		313,365		313,365	690,744	626,790	1,160,792	2,791,691
Total HTCU	**0**	**313,365**	**0**	**313,365**	**690,744**	**626,790**	**1,160,792**	**2,791,691**
ANPR Cameras	**300,000**	**-170,000**	**130,000**		**125,000**	**286,000**	**130,000**	**671,000**

Digital Portfolio								
Live Link Project	21,109	0	21,109					21,109
Digital Strategy - Frontline Mobile Devices	104,270	0	104,270					104,270
Digital Recording/Streaming	117,548	0	117,548					117,548
Body Worn Video	63,303	0	63,303					63,303
Mobile Workflow (OPTIK)	250,000	200,000	250,000	200,000	200,000	200,000	200,000	1,050,000
Digital Public Contact	100,000	200,000	200,000	100,000				300,000
DAMS (Digital Asset Management)	590,233	100,000	590,233	100,000				690,233
National Enablers Programme (NEP)		120,000		120,000				120,000
Single Online Home (SOH)	139,000	0		139,000				139,000
Next Generation Computing Trial		50,000		50,000				50,000
Total Digital Portfolio	**1,385,463**	**670,000**	**1,346,463**	**709,000**	**200,000**	**200,000**	**200,000**	**2,655,463**
Protective Services:								
Radio Frequency Capacity		237,000		237,000				237,000
Taser Upgrade - X2s		605,600	605,600		741,860			1,347,460
SCIT Collision Scene Scanners		30,000		30,000				30,000
ANPR in all RAPT Vehicles		115,000		115,000				115,000
Replacement of Speed Detection Devices		23,970		23,970				23,970
Laser Sights for Weapon Systems		50,000		50,000				50,000
Rifle Capability		20,000		20,000				20,000
Carbine Magazine Upgrade		17,800		17,800				17,800
Total Protective Services:	**0**	**1,099,370**	**605,600**	**493,770**	**741,860**	**0**	**0**	**1,841,230**
Other Projects:								
ERP Change Control		100,000	100,000		80,000	88,000	89,000	357,000
CycFreedom Replacement (Info Man)		110,000		110,000				110,000
Genie Clearcore - Phase 3		100,000		100,000				100,000
Project Server		30,000		30,000				30,000
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
Occupational Health and Welfare system		30,000		30,000				30,000
ANPR Hub - Cleartone App		16,000		16,000				16,000
ERP		2,200,000		2,200,000				2,200,000
Total Other Projects	**0**	**2,906,000**	**100,000**	**2,806,000**	**180,000**	**88,000**	**89,000**	**3,263,000**
Total Joint Capital Programme	**1,835,463**	**8,397,453**	**5,660,781**	**4,572,135**	**4,816,463**	**3,516,840**	**3,618,981**	**22,185,200**
Joint Capital Projects - Norfolk	1,046,214	4,786,548	3,226,645	2,606,117	2,745,384	2,004,599	2,062,819	12,645,564
Joint Capital Projects - Suffolk	789,249	3,610,905	2,434,136	1,966,018	2,071,079	1,512,241	1,556,162	9,539,636
	1,835,463	**8,397,453**	**5,660,781**	**4,572,135**	**4,816,463**	**3,516,840**	**3,618,981**	**22,185,200**

Appendix F

Police and Crime Commissioner for Norfolk
Reserves Strategy (Budget and Medium-Term Financial Plan 2020/24)

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 their CFO, and that of the Chief Constable and the Chief Constable's 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, in line with advice as outlined above, 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 2019/20.

10. In the MTFP detailed savings plans are in place for 2020/21 and 2021/22, with additional savings contained in a high level scoped programme for 2022/23 and 2023/24. 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 (between 2.5% - 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.

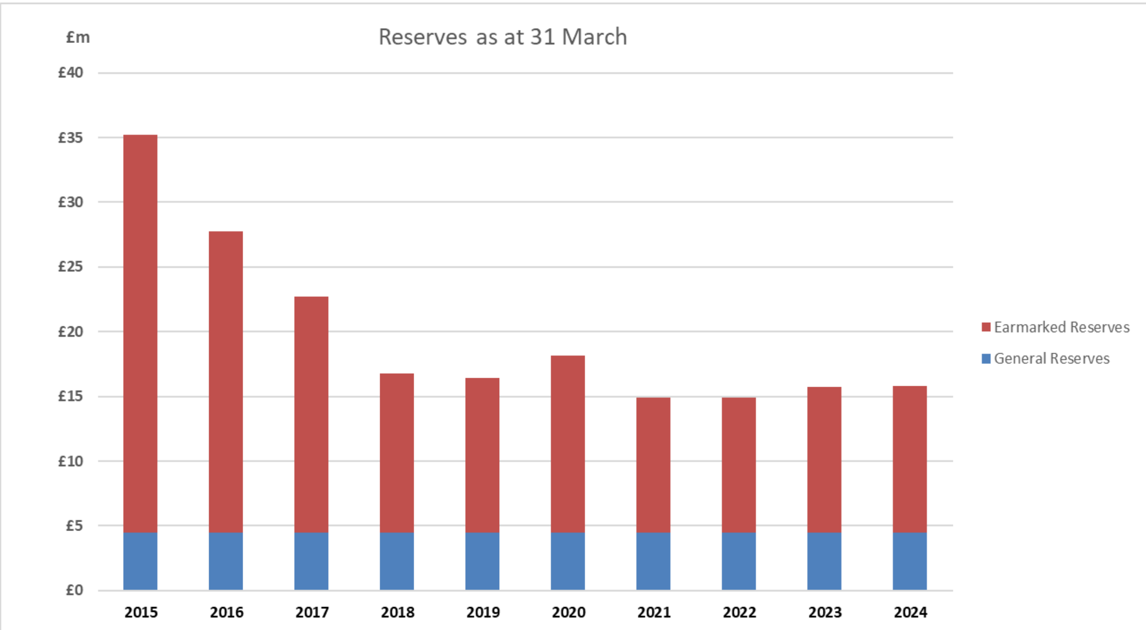
12. A call on the general reserve, particularly for major operations, would be likely to also result in an application to the Home Office for Special Policing Grant (SPG).

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 2019/20 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 reduced to £1m by the end of the MTFP period 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. 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, and as a result of this advice the reserve is being increased to £1m and held at that level.

21. The Police Reform and Social Responsibility Act 2011 sets out a number of ways that PCC's and Community safety Partnerships should work together, including a mutual duty to co-operate with regards to each other's priorities. The **Community Safety Reserve** will enable the PCC to work with the Community Safety Partnership and its respective partners to support evidence based projects at a county wide and local neighbourhood level.

22. 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. This will reduce the overall level of the PCC Reserve to £0.670m during the MTFP period.

23. 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

24. 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 2020 over the above headings.

Conclusion

25. The current policy, as demonstrated in the MTFP, is to maintain revenue general balances close to an operational guideline level of between 2.5%- 3% of the net annual revenue budget. Across the police service this is the generally accepted level which is appropriate.

26. The earmarked reserves have been described and the strategy is to keep these for specific purposes (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. The Strategy for the total level of reserves is to not let these drop below 6% and this is achieved in this MTFP.

27. 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 CFOs 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	Regional Partnership Reserve	Community Safety Reserve	PCC Reserve	Total Earmarked Reserve	Total General and Earmarked Reserves
	£000	£000	£000	£000	£000	£000			£000	£000	£000
31/03/2019 Actual	**4,475**	**2,337**	**763**	**6,360**		**786**	**71**		**1,598**	**11,915**	**16,390**
Proposed Changes 2019/20:											
Transfer to Revenue from Reserves			(169)	(1,263)						**(1,432)**	
Transfer to Revenue from Reserves (Norfolk 2020)			(394)							**(394)**	
Transfer to Revenue from Reserves (PEQF)		(379)								**(379)**	
Contribution to Reserves			800		598					**1,398**	
Financing Commissioning Plan									(226)	**(226)**	
Re-financing Gain share			2,812							**2,812**	
Reallocation of Reserves		(1,958)	732	512		214		500			
31/03/2020 Forecast	**4,475**		**4,544**	**5,609**	**598**	**1,000**	**71**	**500**	**1,372**	**13,694**	**18,169**
Proposed Changes 2020/21:											
Transfer to Revenue from Reserves			(175)	(3,460)					(542)	**(4,177)**	
Contribution to Reserves				428	500					**928**	
31/03/2021 Forecast	**4,475**		**4,369**	**2,576**	**1,098**	**1,000**	**71**	**500**	**830**	**10,444**	**14,919**
Proposed Changes 2021/22:											
Transfer to Revenue from Reserves			(180)	(169)					(160)	**(510)**	
Transfer from Reserves (Tasers)											
Contribution to Reserves					500					**500**	
31/03/2022 Forecast	**4,475**		**4,189**	**2,407**	**1,598**	**1,000**	**71**	**500**	**670**	**10,435**	**14,910**
Proposed Changes 2022/23:											
Transfer to Revenue from Reserves			(186)							**(186)**	
Contribution to Reserves				501	500					**1,001**	
31/03/2023 Forecast	**4,475**		**4,003**	**2,908**	**2,098**	**1,000**	**71**	**500**	**670**	**11,250**	**15,725**
Proposed Changes 2023/24:											
Transfer to Revenue from Reserves			(191)	(761)						**(952)**	
Contribution to Reserves				500	500					**1,000**	
31/03/2024 Forecast	**4,475**		**3,812**	**2,647**	**2,598**	**1,000**	**71**	**500**	**670**	**11,298**	**15,773**

Excludes Safety Camera Partnership Reserve

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

ANNEX 2

Analysis of forecast reserves as at 31.03.2020 - NORFOLK					
	Forecast Balance as at 31.3.20	**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 2023/24**	**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		0.000	
Invest to Save Reserve	4.544	0.732		3.812	
Capital Financing Reserve	5.609	3.993	-1.031	2.647	
Maturity loan repayment reserve	0.598	0.000	-2.000	2.598	
Insurance Reserve	1.000				1.000
Partnership Reserve	0.071	0.000			0.071
Community Safety Reserve	0.500			0.500	
PCC Reserve	1.372	0.702			0.670
Total Earmarked Reserves	13.694	5.427	-3.031	9.557	1.741
Safety Camera Reserve	1.736	0.000	0.000	1.736	
Total Reserves	19.905	5.427	-3.031	11.293	6.216

The Office of the Police and Crime Commissioner for Norfolk
Annual Investment and Treasury Management Strategy Statement 2020/21

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

2. Reporting requirements

Capital Strategy

2.1 The CIPFA 2017 Prudential and Treasury Management Codes require, for 2020/21, all local authorities to prepare 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 2020/21

3.1 The strategy for 2020/21 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 2020/21

4.1 On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 - 0.75%
- Q1 2022 - 1.00%
- Q1 2023 - 1.00%

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
2019/20	0.75%
2020/21	0.75%
2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%
Later Years	2.25%

The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.

The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

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.
- Details of Specified and Non-Specified investment types.

5. Investment Strategy 2020/21 - 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, 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 2020/21 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 2020/21 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 2020/21 – 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 or for a longer period but where the PCC has the right to be repaid within one year if he wishes. Institutions of "high" credit quality are deemed to be Specified Investments where the possibility of loss of principal or investment income is small. From the pool of high quality investment counterparties identified in Section 5, the following are deemed to be Specified Investments :

- 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, 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 that cannot be recalled within 365 days of initiation.

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 2020/21 therefore includes both Specified and Non-Specified Investment institutions.

7. Borrowing Strategy 2020/21

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 increase the PCC's borrowing requirement. The PCC's need to borrow is measured by the Capital Financial Requirement (CFR), 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 Historically, the main source of long term loans was 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. However, on 9 October 2019, HM Treasury increased PWLB rates by 100 basis points, many local authorities will now be viewing the PWLB as a lender of last resort. It is very likely that alternative providers of finance will step into the market for lending to local authorities. It is not certain whether this decision will be reversed if Gilt rates rise within the next year.

7.4 External borrowing currently stands at £23.97m (excluding PFI). At 31 March 2019 there was a £28.7m Capital Financing Requirement (CFR) relating to unfunded capital expenditure which had been financed from internal resources. The CFR is estimated to be £32.4m at 31 March 2020, £47.9m at 31 March 2021 and £47.0 at 31 March 2022. Additional long term borrowing is estimated at £10.9m for 2020/21, £1.6m for 2022/23 and £1.2m for 2023/24. 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 Annex 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 31.3.20:

	Actual*	Lower Limit	Upper Limit
Under 12 months	0.7%	0%	15%
12 months and within 24 months	0.8%	0%	15%
24 months and within 5 years	16.3%	0%	45%
5 years and within 10 years	18.8%	0%	75%
10 years and above	63.4%	0%	100%

* Actual is based on existing balances at 17.12.19

- **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 2020/21, 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 2020/21, 2021/22, 2022/23

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 E (of the PCC's Budget and MTFP report 2020/24). The total estimated payments are:

	2020/21	2021/22	2022/23
	£m	£m	£m
Capital Expenditure Forecast	24.483	3.889	5.554

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		
2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
5.06%	5.05%	5.02%

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 capital purposes, 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			
31/03/20 Estimate	31/03/21 Estimate	31/03/22 Estimate	31/03/23 Estimate
£91.527m	£105.682m	£103.428m	£103.155m

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 2020/21 and future years limits.
For 2020/21 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			
	2020/21	2021/22	2022/23
	£m	£m	£m
PWLB borrowing	34.590	34.284	34.581
Other long term liabilities (OCC PFI)	23.994	23.373	22.679
Other long term liabilities (PIC PFI)	33.834	33.049	32.207
Headroom	18.458	17.893	18.845
Total	110.966	108.600	108.312

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 authorised 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			
	2020/21	2021/22	2022/23
	£m	£m	£m
PWLB borrowing	34.590	34.284	34.581
Other long term liabilities (OCC PFI)	23.994	23.373	22.679
Other long term liabilities (PIC PFI)	33.834	33.049	32.207
Total	92.418	90.707	89.467

Annex 2

Minimum Revenue Provision (MRP)
MRP Policy and Statement for 2020/21.

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. MRP Policy

3.1 Before 1 April 2019 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 Option 3b (Annuity Method) is adopted for capital expenditure chargeable as MRP for the first time after 1 April 2019. The principal reason for this change was 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 The revised Statutory Guidance released on 2 February 2018 stipulates that this change in policy cannot be applied retrospectively to assets placed in service prior to the date the revised policy was introduced. Therefore Option 3a still applies to capital expenditure chargeable as MRP for the first time prior to 1 April 2019.

4. Recommendations

4.1 It is proposed that the following MRP policy is adopted as follows for 2020/21:

- 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.

LINK ASSET SERVICES

ECONOMIC BACKGROUND

UK. Brexit. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January; however, even with a Conservative Government overall majority gained at the general election on 12 December, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020.

While the Bank of England went through the routine of producing another quarterly Inflation Report, (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers are worth when faced with the uncertainties of where the UK will be following the general election. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed. Possibly the biggest message that is worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence the MPC views inflation as causing little concern in the near future.

If economic growth were to weaken considerably,, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and both of the largest parties made significant promises in their election manifestos to increase government spending. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure. In addition, it has to be borne in mind that even if the post-election Parliament agrees the deal on 31 January 2020, the current transition period for negotiating the details of the terms of a trade deal with the EU only runs until 31 December 2020. This could prove to be an unrealistically short timetable for such major negotiations which leaves open two possibilities; one the need for an extension of negotiations, probably two years, or a no deal Brexit in December 2020.

As for **inflation** itself, CPI has been hovering around the Bank of England’s target of 2% during 2019, but fell again in October to 1.5%. It is likely to remain close to or under 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** growth in numbers employed has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, this was about half of what had been expected. The unemployment rate fell back again to a 44 year low of 3.8% on the Independent Labour Organisation measure in September, despite the fall in numbers employed, due to numbers leaving the work force. Wage inflation has been edging down from a high point of 3.9% in July to 3.8% in August and now 3.6% in September, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 1.9%. As the UK economy is very much services sector driven, an 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. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

In the **political arena**, the general election result could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 1.9% in quarter 3; it is expected to fall further. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening; CPI inflation fell from 2.3% to 2.0% in September.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%. At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn , whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt).

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China. However, in early November, a phase one deal was agreed between the US and China to roll back some of the tariffs which gives some hope of resolving this dispute.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1, +0.2% q/q (+1.2% y/y) in quarter 2 and then +0.2% q/q, +1.1% in quarter 3; there appears to be little upside potential in the near future. German GDP growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period;** (at its October meeting it said this would start in November at €20bn per month - a relatively small amount compared to the previous buying programme). It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments will need to help stimulate growth by 'growth friendly' fiscal policy.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU. The results of the Spanish general election in November have not helped the prospects of forming a stable coalition.

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 shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

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.

WORLD GROWTH. Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support (i.e. subsidies) to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

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.** On this basis, while GDP growth is likely to be subdued in 2019 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in subsequent years which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- 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. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

However, there would appear to be a majority consensus in the Commons against any form of non-agreement exit so the chance of this occurring has diminished.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

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 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** 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.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **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. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but this time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some \$19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is \$15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks,** for example in 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 agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary 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.

Appendix H

Option 1 - Norfolk PCC Precept 2020/21 – Council Tax Freeze

			£	
Budget Requirement			171,690,183	
Less Government Funding			94,780,161	
To be met from council tax (incl. surplus)			76,910,022	
Billing Authority	**Taxbase**	**Precept Amount**	**Surplus/(Deficit) on Collection Fund**	**Total Payments Due**
		£	**£**	**£**
BRECKLAND	44,013	11,138,861	38,559	11,177,420
BROADLAND	46,430	11,750,504	7,103	11,757,607
GT. YARMOUTH	29,048	7,351,468	39,882	7,391,350
K.LYNN & W. NORFOLK	51,980	13,155,022	540,448	13,695,470
NORTH NORFOLK	41,033	10,384,632	99,032	10,483,664
CITY OF NORWICH	37,003	9,364,719	307,400	9,672,119
SOUTH NORFOLK	49,966	12,645,395	86,996	12,732,391
	299,473	75,790,602	1,119,420	76,910,022

Valuation Band	**Council Tax 2019/20**	**Council Tax 2020/21**
	£	**£**
A	168.72	168.72
B	196.84	196.84
C	224.96	224.96
D	253.08	253.08
E	309.32	309.32
F	365.56	365.56
G	421.80	421.80
H	506.16	506.16

(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 2019/20 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 2020 to February 2021 precept payments.
(iii)	Where a deficit on collection of 2019/20 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 2020 to February 2021 precept payments.

Option 2 - Norfolk PCC Precept 2020/21 – £5.04 (1.99%) increase in Council Tax

Budget Requirement			173,199,526	
Less Government Funding			94,780,161	
To be met from council tax (incl. surplus)			78,419,365	
Billing Authority	**Taxbase**	**Precept Amount**	**Surplus on Collection Fund**	**Total Payments Due**
		£	**£**	**£**
BRECKLAND	44,013	11,360,687	38,559	11,399,246
BROADLAND	46,430	11,984,512	7,103	11,991,615
GT. YARMOUTH	29,048	7,497,870	39,882	7,537,752
K.LYNN & W. NORFOLK	51,980	13,417,000	540,448	13,957,448
NORTH NORFOLK	41,033	10,591,438	99,032	10,690,470
CITY OF NORWICH	37,003	9,551,214	307,400	9,858,614
SOUTH NORFOLK	49,966	12,897,224	86,996	12,984,220
	299,473	77,299,945	1,119,420	78,419,365

Valuation Band	**Council Tax 2019/20**	**Council Tax 2020/21**	**Increase Year**	**Increase Week**
	£	**£**		
A	168.72	172.08	3.36	0.06
B	196.84	200.76	3.92	0.08
C	224.96	229.44	4.48	0.09
D	253.08	258.12	5.04	0.10
E	309.32	315.48	6.16	0.12
F	365.56	372.84	7.28	0.14
G	421.80	430.20	8.40	0.16
H	506.16	516.24	10.08	0.19

(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 2019/20 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 2020 to February 2021 precept payments.

(iii) Where a deficit on collection of 2019/20 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 2020 to February 2021 precept payments.

Option 3 - Norfolk PCC Precept 2020/21 – £9.99 (3.95%) increase in Council Tax

			£	
Budget Requirement			174,681,917	
Less Government Funding			94,780,161	
To be met from council tax (incl. surplus)			79,901,756	

Billing Authority	Taxbase	Precept Amount	Surplus on Collection Fund	Total Payments Due
		£	£	£
BRECKLAND	44,013	11,578,553	38,559	11,617,112
BROADLAND	46,430	12,214,340	7,103	12,221,443
GT. YARMOUTH	29,048	7,641,657	39,882	7,681,539
K.LYNN & W. NORFOLK	51,980	13,674,300	540,448	14,214,748
NORTH NORFOLK	41,033	10,794,551	99,032	10,893,583
CITY OF NORWICH	37,003	9,734,379	307,400	10,041,779
SOUTH NORFOLK	49,966	13,144,556	86,996	13,231,552
	299,473	78,782,336	1,119,420	79,901,756

Vaulation Band	Council Tax 2019/20	Council Tax 2020/21	Increase Year	Increase Week
	£	£		
A	168.72	175.38	6.66	0.13
B	196.84	204.61	7.77	0.15
C	224.96	233.84	8.88	0.17
D	253.08	263.07	9.99	0.19
E	309.32	321.53	12.21	0.23
F	365.56	379.99	14.43	0.28
G	421.80	438.45	16.65	0.32
H	506.16	526.14	19.98	0.38

(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 2019/20 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 2020 to February 2021 precept payments.

(iii) Where a deficit on collection of 2019/20 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 2020 to February 2021 precept payments.