

ORIGINATOR: PCC CFO and CC CFO

DECISION NO. 2-2014

REASON FOR SUBMISSION: FOR DECISION

SUBMITTED TO: POLICE AND CRIME COMMISSIONER

SUBJECT: MEDIUM TERM FINANCIAL PLAN 2014-15 TO 2017-18

SUMMARY:

1. The Medium Term Financial Plan (MTFP) sets out the key financial issues facing the PCC and Constabulary over the period 2014-15 to 2017-18 and includes information and recommendations relating to the revenue budget, capital programme and associated financing issues.
2. The MTFP is based on taking the Council Tax Freeze Grant (CTFG) of 1% in 2014-15, and assumes taking the CTFG of 1% in each of the remaining years of the MTFP (Option 1).
3. The report also presents the financial impact of an alternative option to increase the council tax precept by 1.997% in 2014-15 and then levying a 2% increase in council tax precept in each of the remaining years of the MTFP (Option 2).

RECOMMENDATION:

It is recommended that:

1. The PCC considers the draft Medium Term Financial Plan 2014-15 to 2017-18 attached as Appendix 1, and approves the recommendations contained therein.
2. When setting the precept level and council tax requirement, consideration is given by the PCC to the financial and service implications of Options 1 and 2, the assessment of financial risks in Section 6, and the outcome of the survey and consultation events summarised in Section 2 of the MTFP.

APPROVAL BY: PCC

The recommendations above are approved.

Signature



Date

22/1/2014

DETAIL OF THE SUBMISSION

1. KEY ISSUES FOR CONSIDERATION:

- 1.1 The requirement to develop a Medium Term Financial Strategy is articulated in both the CIPFA Statement on the Role of the Chief Finance Officer (CFO) of the PCC and the CFO of the Chief Constable (CC) (July 2012), and the Home Office Financial Management Code of Practice for the Police Forces of England and Wales (October 2013).
- 1.2 The attached Medium Term Financial Plan (MTFP) 2014-15 to 2017-18 provides information relating to the proposed revenue budget (including planned revenue changes and savings plans), capital programme, two alternative precept levels and council tax requirement, together with associated financing issues.
- 1.3 The report contains a number of recommendations relating to the MTFP, which are summarised below:
 - Known changes to the Constabulary's 2013-14 base revenue budget;
 - Planned savings proposals;
 - Proposed capital expenditure plans;
 - Treasury management strategy and associated financial limits/indicators;
 - Use and transfer of reserve balances.
- 1.4 The report also asks the PCC to consider the medium term financial impact of:
 - Option 1- take the Council Tax Freeze Grant of 1% in 2014-15, and assume taking the CTFG of 1% in each of the years of the medium term plan;
 - Option 2- increase council tax by 1.997% in 2014-15, and assume a 2% council tax increase in each of the remaining years of the medium term plan.

2. FINANCIAL IMPLICATIONS:

- 2.1 The purpose of the MTFP is to provide the PCC sufficient financial information in the main report, supported by detailed appendices, to enable informed decisions to be taken with regard to the revenue and capital plans, associated financial issues, precept level and council tax requirement.
- 2.2 An assessment of financial risk and its management is summarised in Section 6 of the report.

3. OTHER IMPLICATIONS

Equality and Diversity

- 3.1 An Equality Analysis has been undertaken in the development of the MTFP and there are no factors of direct material significance in terms of the process of preparing the MTFP. However, an important consideration in the development and implementation of the Constabulary's savings plans is to ensure compliance with Equality and Diversity legislation.

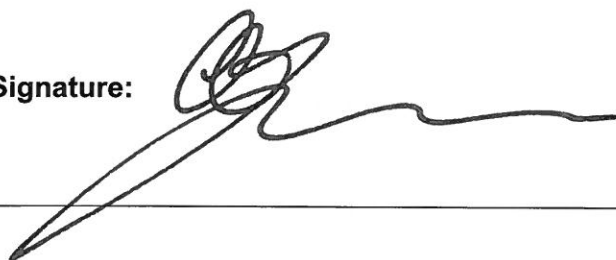
ORIGINATOR CHECKLIST (MUST BE COMPLETED)	PLEASE STATE 'YES' OR 'NO'
Has legal advice been sought on this submission?	Yes
Has the PCC's Chief Finance Officer been consulted?	The PCC CFO and CC CFO are co-authors of the report
Have equality, diversity and human rights implications been considered including equality analysis, as appropriate?	Yes- see paragraph 3.1
Have human resource implications been considered?	Yes
Is the recommendation consistent with the objectives in the Police and Crime Plan?	Yes
Has consultation been undertaken with people or agencies likely to be affected by the recommendation?	Yes- see paragraphs 1.6 and 1.7 of the MTFP
Has communications advice been sought on areas of likely media interest and how they might be managed?	Yes
In relation to the above, have all relevant issues been highlighted in the 'other implications and risks' section of the submission?	Yes

APPROVAL TO SUBMIT TO THE DECISION-MAKER (this approval is required only for submissions to the PCC).

Chief Executive

I am satisfied that relevant advice has been taken into account in the preparation of the report and that this is an appropriate request to be submitted to the PCC.

Signature:



Date *21 January 2014*

Option 1 - Take Council Tax Freeze Grant of 1% in 2014-15

Appendix A(i)

SUFFOLK MEDIUM TERM FINANCIAL PLAN - 4 YEAR OVERVIEW					
	Forecast				
	2014/15	2015/16	2016/17	2017/18	Comments
	£000	£000	£000	£000	
FORWARD PROJECTION OF 2013/14 REVENUE BUDGET:					
Total Revenue Expenditure before savings	121,636	123,060	124,503	125,965	Excludes Capital and cost of change
Revenue Funding of Capital Expenditure	315	312	1,246	307	Appendix D
Total Revenue Income inc Specific Grants	-7,478	-7,550	-7,624	-7,698	
General Grant & DCLG Income	-67,399	-64,703	-62,115	-59,631	4.8% reduction in 14/15 and 4% reduction thereafter
Council Tax Freeze Grant (for no precept increase in 2011/12)	-1,030	-1,030	-1,030	-1,030	Freeze grant transferred to HO and baselined
Council Tax Freeze Grant (for no precept increase in 2012/13)	0	0	0	0	
Council Tax Freeze Grant (for no precept increase 2013/14)	-431	-431	-431	-431	Freeze grant transferred to HO and baselined
Council Tax Freeze Grant (for no precept increase 2014/15)	-382	-382	-382	-382	Freeze grant for 0% precept in 14/15 - assumed to be in base
Council Tax Freeze Grant (for no precept increase 2015/16-2017/18)		-382	-382	-382	Freeze grant for 0% precept in 15/16 - assumed to be in base
Precept Income	-38,965	-38,664	-38,664	-38,664	No Council Tax Increase
Council Tax Support Funding	-4,891	-4,891	-4,891	-4,891	
DEFICIT BEFORE KNOWN CHANGES	1,374	5,339	10,230	13,163	
Known / Expected Changes	2,669	2,450	2,532	3,188	Appendix B
Planned use of reserves	-1,577	-1,171	-100		Appendix B
REVENUE DEFICIT BEFORE SAVINGS	2,466	6,618	12,662	16,351	
Total CSR1 Savings	-772	-1,289	-1,994	-1,994	Appendix C
Total CSR2 Savings (exc CSR2 Project Savings)	-710	-799	-579	-579	Appendix C
Total Cumulative Permanent Savings	-1,482	-2,088	-2,573	-2,573	
REVENUE DEFICIT AFTER SAVINGS (exc CSR2 Project Savings)	984	4,530	10,089	13,778	
CSR2 Planned Project Savings	-841	-1,740	-3,194	-3,548	Appendix C
BALANCE OF SAVINGS TO BE ACHIEVED	-143	-2,790	-6,895	-10,230	
REVISED REVENUE DEFICIT/SURPLUS (-) AFTER SAVINGS	0	0	0	0	
Contribution to / from (-) Cash / Reserves	0	0	0	0	
ABOVE BASED ON FOLLOWING ASSUMPTIONS					
Police Pay awards	1.00%	1.00%	1.00%	1.00%) Impact in each year is a combination of pay
Staff Pay awards	1.00%	1.00%	1.00%	1.00%) awards in previous and current year
Price Inflation	2.00%	2.00%	2.00%	2.00%	Average figure.
General Grants	-4.80%	-4.00%	-4.00%	-4.00%	As per Provisional Settlement
Additional grant reduction - assumption over CSR					
Precept - Tax base increase	1.18%	0.00%	0.00%	0.00%	
Precept - Bill increase	0.00%	0.00%	0.00%	0.00%	

Option 2 - 1.997% Council Tax Increase in 2014-15

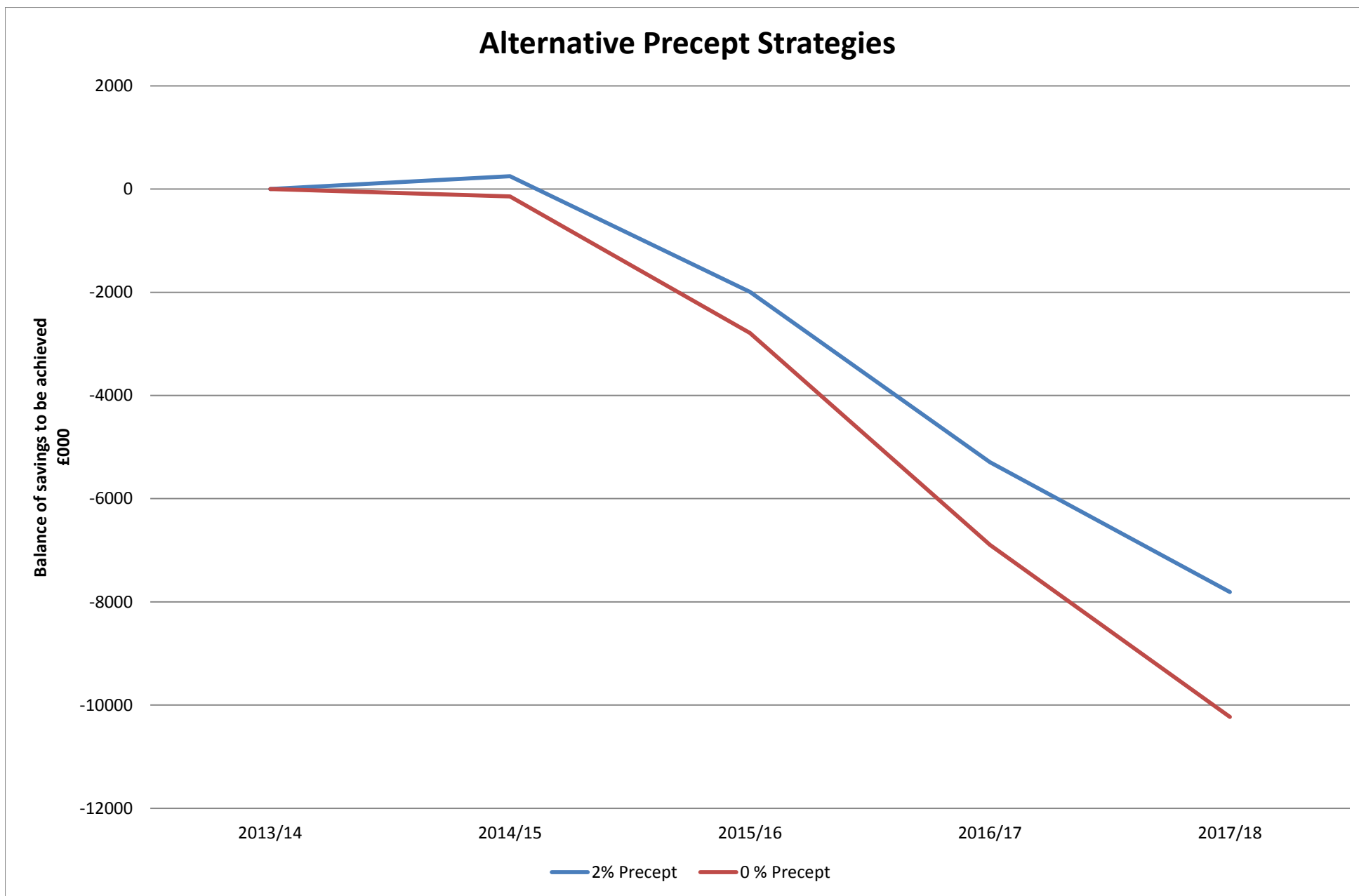
Appendix A(ii)

SUFFOLK MEDIUM TERM FINANCIAL PLAN - 4 YEAR OVERVIEW					
	Forecast				
	2014/15	2015/16	2016/17	2017/18	Comments
	£000	£000	£000	£000	
FORWARD PROJECTION OF 2013/14 REVENUE BUDGET:					
Total Revenue Expenditure before savings	121,636	123,060	124,503	125,965	Excludes Capital and cost of change
Revenue Funding of Capital Expenditure	315	312	1,246	307	Appendix D
Total Revenue Income inc Specific Grants	-7,478	-7,550	-7,624	-7,698	
General Grant & DCLG Income	-67,399	-64,703	-62,115	-59,631	4.8% reduction in 14/15 and 4% reduction thereafter
Council Tax Freeze Grant (for no precept increase in 2011/12)	-1,030	-1,030	-1,030	-1,030	Freeze grant transferred to HO and baselined
Council Tax Freeze Grant (for no precept increase 2013/14)	-431	-431	-431	-431	Freeze grant transferred to HO and baselined
Precept Income	-39,737	-40,224	-41,028	-41,849	1.997% Council Tax Increase in 14/15, 2% thereafter
Council Tax Support Funding	-4,891	-4,891	-4,891	-4,891	
DEFICIT BEFORE KNOWN CHANGES	984	4,542	8,629	10,742	
Known / Expected Changes	2,669	2,450	2,532	3,188	Appendix B
Planned use of reserves	-1,577	-1,171	-100	0	Appendix B
REVENUE DEFICIT BEFORE SAVINGS	2,076	5,821	11,061	13,930	
Total CSR1 Savings	-772	-1,289	-1,994	-1,994	Appendix C
Total CSR2 Savings	-710	-799	-579	-579	Appendix C
Total Cumulative Permanent Savings	-1,482	-2,088	-2,573	-2,573	
REVENUE DEFICIT AFTER SAVINGS (exc CSR2 Project Savings)	594	3,734	8,488	11,357	
CSR2 Planned Project Savings	-841	-1,740	-3,194	-3,548	Appendix C
BALANCE OF SAVINGS TO BE ACHIEVED	0	-1,994	-5,294	-7,809	
REVISED REVENUE DEFICIT/SURPLUS (-) AFTER SAVINGS	-247	0	0	0	
Contribution to / from (-) Cash / Reserves	247	0	0	0	
ABOVE BASED ON FOLLOWING ASSUMPTIONS					
Police Pay awards	1.00%	1.00%	1.00%	1.00%) Impact in each year is a combination of pay
Staff Pay awards	1.00%	1.00%	1.00%	1.00%) awards in previous and current year
Price Inflation	2.00%	2.00%	2.00%	2.00%	Average figure.
General Grants	-4.80%	-4.00%	-4.00%	-4.00%	As per Provisional Settlement
Additional grant reduction - assumption over CSR					
Precept - Tax base increase	1.18%	0.00%	0.00%	0.00%	
Precept - Bill increase	1.997%	2.00%	2.00%	2.00%	

PLANNED REVENUE CHANGES - SUFFOLK - 2014/2018					
	Proposed	Forecast	Forecast	Forecast	
	2014-15	2015-16	2016-17	2017-18	
	£000	£000	£000	£000	Comments
Unavoidable Changes					
Rent & Housing Allowances	-226	-300	-450	-600	Allowances being phased out. Exact figure will depend on number of leavers.
Compensatory Related Threshold Payments savings	-150	-300	-450	-450	Removal of allowance
Variation in Bank Holiday Numbers (9 in 2012/13 then 7, 8, 11 & 8).	89	267	-89	178	Each bank holiday costed at £89k.
Estimated PND and Learning & Development increases.	94	94	94	94	National Charges (NPIA document covering increase in charges to 14/15)
FME contract - assumption of £500k (joint)	217	217	217	217	New contract from 1/4/14 - estimated increase £500k (joint)
Building Maintenance	160	160	160	160	Reinstatement of 2 year reduction agreed for 11/12 & 12/13.
External Planning Support for Sizewell C	-125	0	0	0	Costs on consultancy and overtime expected to be recovered in following year.
Non Pay - Facilities Management	244	244	244	244	Contractual Costs
Firearms Licensing Income	-18	-103	-105	-76	As per Firearms Licensing forecast
LGPS % increase	53	106	117	117	% increase advised
Pensionable staff overtime and claimed enhancements	74	74	74	74	New regulations - overtime and allowances become pensionable
Northgate Licences	-19	-19	-19	-19	Reduced shared cost
Total Unavoidable changes	393	440	-207	-61	
Assumed changes					
Auto-enrolment to Pension schemes				610	Deferral of Auto Enrolment until 2017
Single Tier Pension			1,800	1,800	Increase in NI Contributions to fund the Single Tier Pension introduced by the Government
ERP revenue implications		-58	-58	-58	Reduction in contract costs from 2015/16
3 Month Recruitment Delay	-150	0	0	0	Delay in recruitment of posts included in Scrutiny
Op Griffin Secondment - Protection from Harm Analyst	15				Tackling national and international organised crime threats
Total Assumed changes	-135	-58	1,742	2,352	
Changes supported by JCOT in 2013/14					
Officers at 1200 fte	360	360	360	360	Additional requirement due to change in hierarchy in 2013/14
Additional posts - Human Resources (temp)	144	0	0	0	Higher volumes of intake
Additional posts - Strategic Change (temp)	116	58			Higher volumes of change through business cases (reserve funded)
Performance Improvement Unit	28	28	28	28	To deliver joint PIU as per Business Case
Total changes agreed in 2013/14	648	446	388	388	
Changes following Scrutiny					
Suffolk only					
Public Protection posts	253	253	253	253	MASH/IDVA/SARC
Justice Services post	12	12	12	12	
Joint					
Temporary posts	117				ANPR, Internal Comms
ANPR Revenue costs	21	30	30	30	As per Business Case
ERP Backfill	218				JCOT/PCC Approved, funded by reserves
Back Office	186				HR, PSD, JPAD
Proceeds of Crime Act Incentivisation Income	43	44	44	44	Reduced Income target
Total Changes following Scrutiny	850	339	339	339	
Changes agreed subject to Business Cases					
JCOT/PCC Approved					
Chief Officer Contingency	250	250	250	250	JCOT/PCC Approved - as per PCC Reserve paper
20 Additional officers (managed down in 15-16)	751	421			JCOT/PCC Approved - Reserve Funded
Subject to final Business Cases					
Pay and Conditions Harmonisation - base	-130	-130	-130	-130	Reduction in annual requirement from £500k to £370k - subject to final Business Case
Pay and Conditions Harmonisation - pay protection	392	392			To be funded by Change Reserve - subject to final business case
Cost of Change (CSR2)	100	300	100		Re CSR2 - Use of Change Reserve
Integrated Offender Management - non pay	50	50	50	50	Additional vehicles and ICT - subject to final Business Case
Total changes agreed subject to Business Cases	1,413	1,283	270	170	
Reduced officer numbers to reduce deficit in year 1 (10)	-500				
Total Changes Before Reserve Movement Adjustments	2,669	2,450	2,532	3,188	
Reserve Funded adjustments					
20 Additional officers (managed down in 15-16)	-751	-421			JCOT/PCC Approved
Strategic Change posts (Invest to save)	-116	-58			JCOT/PCC Approved
ERP Backfill (Change Reserve)	-218				JCOT/PCC Approved
Pay and Conditions Harmonisation - pay protection	-392	-392			Use of Change Reserve previously agreed for pay protection - subject to final business case
Cost of Change (CSR2)	-100	-300	-100		
Total Reserve funded adjustments	-1,577	-1,171	-100	0	
Total	1,092	1,279	2,432	3,188	

SAVINGS PLAN - SUFFOLK - 2014/2018					
		Proposed	Forecast	Forecast	Forecast
		2014/15	2015/16	2016/17	2017/18
		£000	£000	£000	£000
CSR 1 Savings:					
	Business Support Review	251	689	1,264	1,264
	Criminal Justice	388	417	497	497
	Protective Services	83	83	83	83
CSR 1 Project Savings:		722	1,189	1,844	1,844
Single Force:					
	Coroners Officers	50	100	150	150
CSR 1 Single Force Savings Savings:		50	100	150	150
Total CSR1 Savings		772	1,289	1,994	1,994
CSR 2 Savings:					
	Conferences	31	31	31	31
	Contract savings	109	218		
	Abatement adjustment - (vacancy factor increased for Staff and removed for Officers)	570	550	548	548
CSR 2 Savings:		710	799	579	579
CSR 2 PROJECT SAVINGS:					
	As per Scrutiny - Joint	473	472	472	472
	As per Scrutiny - Suffolk only	258	208	188	188
	CSR2 additional savings as per draft plan	110	1,060	2,534	2,888
Total CSR 2 Project Savings:		841	1,740	3,194	3,548
TOTAL SAVINGS INCLUDING CSR2 PROJECTS AGAINST 13/14 BASE:		2,323	3,828	5,767	6,121

PROPOSED CAPITAL PROGRAMME (SUFFOLK) 2014/2018					
Scheme	Forecast				Comments
	2014/15	2015/16	2016/17	2017/18	
	£000	£000	£000	£000	
ICT REPLACEMENT PROGRAMME:					
Suffolk Only					
Equipment Renewals	218	152	495	294	Hardware renewals (Networks & Desktop)
CJX Migration to PNN4	60				
Joint (43.5%)					
ICT Replacements	151	164	143	191	
IP Call Manager	52				
LAN/WAN Tech Refresh	100	174	261	87	
Network Tools	4				
Voice Recorder		65			
ANPR Cameras	35	35	17	17	
ANPR Back Office Function	117			9	To support joint ANPR Hub
Joint (not 56.5/43.5 split)					
Microwave Tech Refresh		30	30	30	
ICT REPLACEMENT PROGRAMME TOTAL					
	737	620	947	628	
PROJECTS AND OTHER ICT RELATED SCHEMES					
Joint Norfolk and Suffolk projects (Suffolk share):					
Electronic Access Control Rationalisation	179				
Live Link Project	65	65			
Enterprise Resource Planning (ERP) System	79	161			
PROJECTS AND OTHER ICT RELATED SCHEMES TOTAL					
	323	226	0	0	
ESTATES:					
Estates Strategy	420	945	1,896	1,683	To support alterations, minor works, removals and sales.
ESTATES TOTAL					
	420	945	1,896	1,683	
EQUIPMENT & VEHICLES					
Vehicle Replacement	1,091	1,225	1,144	1,089	
Replacement Body Armour	63	59	36	33	
Catering Equipment	10				
New Print Room	8				
Firearms Equipment		37	3		Ballistic Armour & Shields etc
EQUIPMENT & VEHICLES TOTAL					
	1,172	1,321	1,183	1,122	
Slippage - Projects spanning financial years 2013/14 and 2014/15					
	1,541				
TOTAL CAPITAL					
	4,194	3,113	4,026	3,433	
TOTAL RECURRING SCHEMES					
	1,729	2,322	3,535	3,066	
TOTAL NON-RECURRING SCHEMES					
	2,465	791	491	367	
PROPOSED CAPITAL FINANCING 2013/2018					
REVENUE BUDGET					
Revenue Funding of Capital in Year	0	0	937	0	
CAPITAL RECEIPTS:					
Framlingham (replaced by new premises) - net figure					
Estates Downsizing	2,906	700	880	2,936	
Unfunded			701	-701	
Capital receipt - Helicopter	198	198	198	198	
Defer use of capital receipts until following year	-640	640			
RESERVES:					
Capital Financing Reserve		414	310		
Change Reserve (for ERP and Storm)	730	161			
CAPITAL GRANTS	1,000	1,000	1,000	1,000	Reduced by topslicing for National Police Air Service (NPAS).
TOTAL FUNDING OF CAPITAL PROGRAMME IN YEAR (excluding borrowing)					
	4,194	3,113	4,026	3,433	
Additional borrowing requirement to fund Capital Programme					
	0	0	0	0	
TOTAL FINANCING OF CAPITAL PROGRAMME					
	4,194	3,113	4,026	3,433	
Revenue budget used to fund capital programme in year					
	0	0	937	0	
Revenue Financing of Unfunded Capital Programme in Previous Years (MRP)					
	315	312	309	307	
TOTAL CHARGE TO GENERAL FUND IN RESPECT OF CAPITAL FINANCING					
	315	312	1,246	307	
SUFFOLK ONLY SCHEMES					
JOINT SCHEMES					



RESERVES SUMMARY - assuming 1% freeze grant														
PROJECTION OF RESERVES LEVELS:														
	General	Budget	Change	Specified Purposes Fund	PCC Reserve	PCC Police and Crime Plan	Ill Health Retirement	Carry Forwards	Capital Financing	Major Crime	Insurance	Safety Camera	Council Tax Reform	Total
	£000		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
31/03/2013 Actual	8,203	1,973	2,775	178	50	75	905	111	1,465	1,192	250	532	27	17,736
Agreed changes to reserves by PCC	-3,203	5,204	0	0	0	0	0	0	0	-1,192	-250	-532	-27	0
Adjusted Reserve Balances	5,000	7,177	2,775	178	50	75	905	111	1,465	0	0	0	0	17,736
Proposed Changes 2013/14: (as at Nov 13)														
Redundancy/Pay Protection/Temp Staff			-210											-210
Contribution to (-) / from Revenue Budget			870											870
Use of Carry-Forwards				-178				-111						-289
Use of capital financing reserve									-741					-741
Police medical retirements							-140							-140
Storm			-121											-121
ERP			-443											-443
31/03/2014 Forecast	5,000	7,177	2,871	0	50	75	765	0	724	0	0	0	0	16,662
Proposed Changes 2014/15:														
Redundancy/Pay Protection/Temp Staff			-392											-392
Cost of Change (CSR2)			-100											-100
Contribution to (-) / from Revenue Budget		0												0
Additional 20 officers		-751												-751
SCD posts		-116												-116
Police medical retirements							-410							-410
Storm			-95											-95
ERP Backfill			-218											-218
ERP			-635											-635
31/03/2015 Forecast	5,000	6,310	1,431	0	50	75	355	0	724	0	0	0	0	13,945
Proposed Changes 2015/16:														
Redundancy/Pay Protection/Temp Staff			-392											-392
Cost of Change (CSR2)			-300											-300
Contribution to (-) / from Revenue Budget		0												0
Use of capital financing reserve									-414					-414
Additional 20 officers (part year)		-421												-421
SCD posts		-58												-58
ERP			-161											-161
31/03/2016 Forecast	5,000	5,831	578	0	50	75	355	0	310	0	0	0	0	12,199
Proposed Changes 2016/17:														
Contribution to (-) / from Revenue Budget		0												0
Cost of Change (CSR2)			-100											-100
Use of capital financing reserve									-310					-310
31/03/2017 Forecast	5,000	5,831	478	0	50	75	355	0	0	0	0	0	0	11,789
Proposed Changes 2017/18:														
Contribution to (-) / from Revenue Budget		0												0
31/03/2018 Forecast	5,000	5,831	478	0	50	75	355	0	0	0	0	0	0	11,789

COUNCIL TAX and BUDGET OPTIONS 2014/15				
	1		2	
Options for Percentage Increase in Council Tax Bills:	0.00000%		1.99700%	
2014/15 Recommended Budget Summary:	£-p		£-p	
Operational costs before Efficiency Savings	117,939,584.60		117,939,584.60	
Specific Grants (excluding Council Tax Freeze Grants)	-3,782,000.00		-3,782,000.00	
New Efficiency Savings from 2014/15	-2,465,945.67		-2,322,750.00	
Planned Revenue Changes	1,092,000.00		1,092,000.00	
Revenue Funding of Capital	314,660.00		314,660.00	
Appropriations to / from (-) Reserves	0.00		246,920.31	
Total Budget	113,098,298.93		113,488,414.92	
Budget financed by:				
Police Grant	43,627,131.90		43,627,131.90	
Business Rates	23,772,120.00		23,772,120.00	
Council Tax Freeze Grant (for no precept increase in 2011/12)	1,030,300.00		1,030,300.00	
Council Tax Freeze Grant (for no precept increase in 2012/13)	0.00		0.00	
Council Tax Freeze Grant (for no precept increase in 2013/14)	430,720.00		430,720.00	
Council Tax Freeze Grant (for no precept increase in 2014/15)	382,000.00		0.00	
Collection Fund Surplus/Deficit	301,232.00		301,232.00	
CT Support Funding Allocation	4,891,000.00		4,891,000.00	
Council Tax Requirement (based on 231,839 taxbase)	38,663,795.03		39,435,911.02	
	113,098,298.93		113,488,414.92	
Council Tax Rate Bands 14/15 (& increase over 13/14):	Rate	Annual Increase	Rate	Annual Increase
A	111.18	0.00	113.40	2.22
B	129.71	0.00	132.30	2.59
C	148.24	0.00	151.20	2.96
D	166.77	0.00	170.10	3.33
E	203.83	0.00	207.90	4.07
F	240.89	0.00	245.70	4.81
G	277.95	0.00	283.50	5.55
H	333.54	0.00	340.20	6.66
		tax base	231,839.03	



**MEDIUM TERM
FINANCIAL PLAN
2014-15 TO 2017-18**

CONTENTS:	PAGE(S):
1 Introduction	3
2 Revenue Budget 2014-15	4-9
3 Capital Programme 2014-15 to 2017-18	9-11
4 Annual Treasury Management Strategy and Prudential Indicators 2014-15	11-12
5 Reserves Strategy	12
6 Section 25 Responsibilities	12-14
7 Conclusion and Summary of Options	14
8 Recommendations	14

1 INTRODUCTION

1.1 This report covers the spending proposals and key issues relating to the budget for 2014-18. It provides the Police and Crime Commissioner (PCC) with information relating to the revenue budget, capital programme and council tax options, together with associated financing issues.

1.2 The report contains appendices that provide more detailed information relating to the proposals.

Appendix A(i) Medium Term Financial Plan (MTFP)- 4 Year Overview- Option 1- take the Council Tax Freeze Grant (CTFG) of 1% in 2014-15, and assume taking the CTFG of 1% in each of the years of the medium term plan.

Appendix A(ii) Medium Term Financial Plan- 4 Year Overview- Option 2- increase council tax by 1.997% in 2014-15, and assume a 2% council tax increase in each of the remaining years of the medium term plan.

Appendix B Planned Revenue Changes 2014-18

Appendix C Savings Plan 2014-18

Appendix D Capital Programme 2014-18

Appendix E Precept Option Scenarios

Appendix F Forecast Use of Reserves

Appendix G Precept Level and Council Tax Requirement Options.

Appendix H Treasury Management Strategy

Appendix I Lending Limits and proposed List of Approved Institutions

Budget process and consultation

1.3 A joint financial planning process has been on-going over recent months in accordance with a timetable previously agreed by the Suffolk and Norfolk Chief Constables and the Suffolk and Norfolk Offices of the PCC. This process was established as a consequence of the substantial and increasing number of collaborated areas and, therefore, the requirement to align as far as possible the service delivery plans in these areas.

1.4 Chief Officers met with senior managers and reviewed and challenged progress on savings targets, and pressures for 2014-15 and beyond. The process concluded with Joint Norfolk and Suffolk Chief Officer meetings that agreed joint budgets, costs and savings to be included in spending plans.

1.5 Decisions regarding the annual budget proposals should be made in the context of the medium to longer-term forecasts, particularly in the current uncertain economic climate. The budget proposals within the report are made within the context of a five-year strategic and financial planning cycle, including the current year. The figures contained within the strategy are based upon current information and stated assumptions.

1.6 In accordance with the requirements of Section 96 (1B) of the Police Act 1996, as amended by section 14 of the Police Reform and Social Responsibility Act 2011, the PCC has an obligation to obtain the views of ratepayer representatives. Accordingly, the proposals for expenditure, including the impact of Options 1 and 2 (paragraph 1.2. above) will be made available to business representatives during January 2014 to enable them to comment upon the proposals.

1.7 The results of the 'Local Policing and Community Safety Survey' undertaken over a six week period in October and November 2013, together with the responses from the ratepayers representatives, and feedback from District meetings and forums, will be taken into consideration by the PCC in the paper on his proposed 2014-15 precept for policing in Suffolk, which will be presented to the Police and Crime Panel on 31 January 2014.

2 REVENUE BUDGET 2014-15

Home Office and Other Grants 2014-15

- 2.1 The provisional central government grant settlement announcements were made on 18 December 2013. The proposals in this report are based on the provisional grant settlement, confirmed local tax base figures, planning assumptions regarding future funding levels, on-going commitments and capital expenditure plans.
- 2.2 The table below provides a comparison between the 2014-15 provisional grant settlement and 2013-14 figures.

	2013-14 £m	2014-15 £m	Reduction %
Home Office Core Grant and Community Safety Fund Grant	45.836	43.627	4.8
DCLG funding	<u>24.935</u>	<u>23.772</u>	<u>4.7</u>
Total General Grant Allocation (£m)	70.771	67.399	4.8

- 2.3 The Home Office grant for 2014-15 for Suffolk has been top-sliced by approximately £1m in order to create a national Police Innovation Fund of £50m, additional resources to improve the national capability of the Independent Police Complaints Commission (IPCC), create additional resources for Her Majesty's Inspectorate of Constabulary (HMIC) (£9m), and the College of Policing (£3m).
- 2.4 In respect of the IPCC top-slicing, it should be noted that the Home Office is assuming that at least initially, Professional Standards Departments within forces will not be reduced despite the top-slicing of PCC grant.
- 2.5 Suffolk and Norfolk PCCs and Constabularies are planning to bid for grants in 2014-15 and beyond from the Innovation Fund for schemes which will promote collaboration with other forces and partner agencies, and improve their use of digital working and technology. These grants will be subject to approval at a later date, and are not a guaranteed income source that can be planned for. In respect of 2013-14, Suffolk and Norfolk PCC's were successful in their joint bid for capital funding in support of the join resource planning system (ERP) and expansion of Automatic Number Plate Recognition (ANPR).
- 2.6 An assessment of the impact of the Innovation Fund capital grant received in 2013-14 on the MTFP 2014-15 to 2017-18 concluded that, as it does not impact on the key elements of the MTFP (including the savings programme, reserves or council tax and budget requirement), the content of the MTFP does not require updating.
- 2.7 The Home Office has applied a 'floor-damping' financial model which results in a cash reduction in formula grant for 2014-15 of 4.8% for all police force areas. The scheme is self-financing within the overall police grant allocation.
- 2.8 However, the Home Office are committed to reviewing the Police Funding Formula, and as a result changes to the grant damping mechanism, and are currently planning on the basis that any changes will be implemented at the earliest in 2016-17. Any change could have significant funding implications for individual police force areas. This will be at a time when it is clear from statements made by the Chancellor that public expenditure will continue to face significant reductions until at least 2020. With this degree of uncertainty, a prudent and flexible approach to financial planning is essential and has been adopted in preparing the MTFP.
- 2.9 In 2013-14 the PCC received a Community Safety Fund Grant of £572k, which was not ring-fenced and was separate from the Home Office Core Grant. This grant was increased to £700k through the use of PCC available funds and was applied to grants that contribute to

delivering the objectives in the Police and Crime Plan 2013-2017 relating to cutting crime, crime prevention, reducing re-offending and community safety.

- 2.10 The MTFP includes an assumption that, of the 2014-15 Home Office Core Grant (£43.627m), £700k will be made available for the purposes described in the above paragraph.
- 2.11 In addition to the figures above, the Council Tax Freeze Grants (CTFG) in relation to both 2011-12 (£1.030m), and 2013-14 (£0.431m) have been assumed to continue for the period of the MTFP.
- 2.12 It is anticipated that funding will be transferred from the Ministry of Justice to PCC's via the Home Office in respect of commissioning of victim's services from October 2014. As budgets are not expected to be confirmed until April 2014, no assumptions have been included in the MTFP for either funding to be received by the PCC, or grants to be awarded.
- 2.13 From April 2013 the Government made significant changes to Council Tax Benefit arrangements through the Local Government Finance Act (2012). These changes impacted on all local authorities as well as PCCs. As a result of these changes the PCCs receive a Council Tax Benefit Grant paid to all billing and precepting authorities. In this regard, the PCC will receive funding of £4.891m in 2014-15.
- 2.14 The revised Council Tax benefit arrangements and the effect on the Council Tax base for the calculation of the precept have been reflected in this report. The Council Tax base, which is a key factor in the calculation of the precept, is based on the final information received from the Borough, District and County Councils.
- 2.15 The table below summarises the 2014-15 income position for Options 1 (take the freeze grant of 1%) and Option 2 (increase the precept by 1.997%)

				Option 1	Option 2
				£m	£m
Income					
	Core Home Office grant			67.4	67.4
	Council Tax Freeze Grant			1.9	1.5
	Council Tax support funding			4.9	4.9
	Precept income			38.9	39.7
	Other income			7.5	7.5
			Total income	120.6	121.0

Assumptions in the Financial Model

- 2.16 A significant planning assumption has been included in respect of revised state pension arrangements. A Pensions Bill was published in January 2013, which outlined the Government's intention to a reformed State Pension of £144 per week from April 2017. In June 2013, the Government announced that the implementation date was being brought forward to April 2016. This change is to be financed by ending contracted out National Insurance contributions for employers and employees for organisations such as the PCC and Constabulary.
- 2.17 The cost of this to the PCC and Constabulary is estimated to be £1.8m per annum and has been included in the forecast from 2016-17 onwards.

2.18 In addition, the following financial assumptions have been used:

	2014-15	2015-16	2016-17	2017-18
Government grant	-4.8%	-4%	-4%	-4%
Council tax base change	1.18%	0%	0%	0%
Collection fund surplus	£301k	£0k	£0k	£0k
Pay awards – officers	1%	1%	1%	1%
Pay awards – staff	1%	1%	1%	1%
Non-pay inflation (average)	2%	2%	2%	2%
Borrowing (long term)	4.51%	4.51%	4.51%	4.51%
Investments	0.75%	0.75%	0.75%	0.75%
Option 1- take the 1% CTFG	1%	1%	1%	1%
Option 2- 1.997% precept increase	1.997%	2%	2%	2%

Planned Revenue Changes

2.19 **Appendix B** provides details of proposed changes to the Constabulary's 2013-14 recurring revenue budgets over the period of the MTFP. Of the £2.7m additional costs in respect of 2014-15, £1.6m relates to funding from PCC reserves of business cases approved by the PCC during 2013-14, including 20 additional police officers for the two years 2014-15 and 2015-16.

2.20 The balance of additional expenditure of £1.1m includes a number of unavoidable changes totalling £400k, together with the costs of new posts which will contribute to delivering the Police and Crime Plan objectives, including the Multi Agency Safeguarding Hub (MASH), Independent Domestic Violence Advisors (IDVA), Sexual Assault Referral Centre (SARC), Special Constabulary recruitment officer and Automatic Number Plate Recognition (ANPR) capacity.

Collaboration and the Challenge Programme

2.21 Suffolk and Norfolk continue with the strategy of collaboration that is recognised by HMIC as an 'exemplar' partnership and one of the most advanced in the country. Most operational areas, except for local policing, have become joint departments, as have most of the back office functions. This means that the financial decisions of both counties are inextricably linked.

2.22 The Chief Constables have a number of work-streams that form part of an overarching and well established Challenge Programme. The original part of the programme was developed to address the savings requirement arising from the four-year Comprehensive Spending Review (CSR1) that covered the period to 2014-15.

2.23 The programme has 5 principal work streams, the first three of which are in collaboration with Norfolk:

- Business Support Review – to create joint back office functions such as HR, Finance and ICT;
- Operational Collaboration – including establishing shared criminal justice, custody and custody investigation units under a Justice Services Command;
- Protective Services Collaboration – joining protective services functions to establish a joint Protective Services Department;
- Suffolk Change Initiatives – Suffolk Local Policing Model, national air service changes and reviews of non-pay expenditure;

- Other regional initiatives – including Eastern Region initiatives for Serious and Organised Crime.

2.24 Currently, the forecast is that the savings from the original programme will be fully realised by the end of 2016-17 (**Appendix C**). This is due to some savings being dependent on the implementation of new software systems to deliver the change. The programme and associated risks are the subject of regular monitoring and review.

2.25 The table below shows that significant progress has been made in implementing the original CSR 1 element of the Challenge Programme. In total, some £15.5m of savings are anticipated from the programme specific to Suffolk, of which some £13.6m have already been taken into account in previous budgets. The remaining balance of savings of £1.9m for 2014-15, 2015-16 and 2016-17 have been included within the assumptions in this report (**Appendix C**).

	09/10 to 13/14	14/15	15/16	16/17	Total
	£000	£000	£000	£000	£000
Business Support Review	3,520	251	438	575	4,784
Protective Services	4,479	83	-	-	4,562
Operational Collaboration	812	388	29	80	1,309
Suffolk Only	4,818				4,818
Total	13,629	722	467	655	15,473

2.26 In June 2013 the Comprehensive Spending Review (CSR2) was outlined by the Chancellor. This covered the period of 2015-16, and the impact of this announcement is reflected in the figures in this report up to 2017-18.

2.27 In order to address a significant part of this projected deficit, new projects for the Challenge Programme are being developed to address the CSR2 targets. Most of the work involves continuing to develop the collaborative arrangements with Norfolk as set out on the previous page.

These projects that cover the entirety of the organisation include:

- A Suffolk estates review;
- A review of cross-border working with Norfolk, and a review of customer access arrangements;
- A further review of Protective Services including greater collaboration with the Eastern Region on Serious and Organised Crime;
- The development of options around Control Room arrangements;
- The development of a Shared Services Partnership for back-office functions including Finance, HR and ICT;
- A review of arrangements covering Operational Business Support across both counties;
- A zero based budget review of Constabulary services to be developed during 2014-15.

2.28 Currently, these projects are estimated to deliver approximately £3.5m of additional savings over the medium-term financial planning period (**Appendix C**) and thus reducing the forecast 2017-18 savings to be achieved to £7.8m and £10.2m respectively, dependant on the precept strategy (**Appendices A(ii) and A(i)**). However, these projects require further detailed work, and therefore the figures outlined contain greater risk than the other savings

figures. Consultation between the PCCs and Chief Constables of both counties will continue as the detailed business cases are developed and approved in relation to these projects.

2.29 The Chief Constable has given a commitment to work with the Police and Crime Commissioner to balance the budget over this period without further reliance on reserves. This will be achieved through:

- Introducing even more efficient ways of working;
- Further collaboration with partners;
- Workforce reductions where unavoidable.

2.30 All collaborative initiatives are being co-ordinated and overseen by a Programme Management Office working within the joint Strategic Change Department and led by an Assistant Chief Constable.

Precept Option Scenarios

2.31 The financial planning process now considers a range of precept options in order to consider the medium term financial outlook. Two scenarios have been modelled in terms of precepting options over the MTFP planning period.

2.32 **Option 1**- take the Council Tax Freeze Grant of 1% in 2014-15, and assumes taking the CTFG of 1% in each of the years of the medium term plan (**Appendix A (i) and Appendix G**).

2.33 **Option 2**- increase council tax by 1.997% in 2014-15, and assumes a 2% council tax increase in each of the remaining years of the medium term plan (**Appendix A (ii) and Appendix G**).

2.34 The overall financial position for the period of the MTFP for each option is summarised below:

Option 1- Take the 1% freeze grant in 2014-15

2.35 Based on the planning assumptions set out in this report, the Constabulary have committed to developing plans to deliver further savings of £143k in 2014-15, rising to £10.2m in 2017-18, in order to provide sufficient funds to support the expenditure plans set out in the MTFP and its associated Appendices, and to achieve a balanced budget over the period of the MTFP.

Option 2- Increase council tax by 1.997% in 2014-15

2.36 Based on the planning assumptions set out in this report, the Constabulary have committed to developing plans to deliver further savings of £2.0m in 2015-16, rising to £7.8m in 2017-18, in order to provide sufficient funds to support the expenditure plans set out in the MTFP and its associated Appendices, and to achieve a balanced budget over the period of the MTFP.

2.37 Importantly, both options 1 and 2 provide sufficient funding during 2014-15 to enable the Constabulary to maintain police officer numbers at around 1200, PCSOs (non-partner) at around 143 and special constables at around 300, and also to invest in new posts which will contribute to delivering the Police and Crime Plan objectives (see paragraph 2.20).

2.38 **Appendix E** shows graphically the impact on the levels of savings to be achieved of the two options over the period of the MTFP.

Council Tax Referendum Principles

- 2.39 At the time of writing this report, the PCC has not received proposed council tax referendum principles applicable to 2014-15. A recent announcement has stated that the Government will not confirm the 2014-15 threshold levels for council tax rises, which would trigger a referendum among voters, until 5 February 2014. An announcement regarding the proposed principles is anticipated around 23 January, with the possibility that the proposed referendum threshold could reduce from 2% to around 1.5%.
- 2.40 This uncertainty introduces a significant degree of risk in respect of the option to increase council tax by 1.997% in 2014-15, and this issue is considered in more detail in Section 6.

Outcome of survey and consultation events

- 2.41 The PCC commissioned an independent survey (undertaken by Swift Research Ltd.) over a six week period in October and November 2013, which resulted in 3472 surveys being completed. The survey included two financial questions.
- 2.42 In response to the first question, 72.8% (2443) 'tended to agree or strongly agree' that Suffolk police provides 'value for money' in their area, with 9.1% (307) 'tending to disagree or strongly disagree', and the remaining 18.1% (608) 'neither agreeing nor disagreeing'.
- 2.43 The second question related to how much people would be prepared to pay for policing in 2014-15, with 50.1% (1738) being prepared to 'pay a little more (equating to between £2 and £7 a year more depending on their council tax band)', with 40.3% (1401) being 'broadly happy with the current amount', and the remaining 9.6% (333) being 'concerned that they were already paying too much'.
- 2.44 A total of 202 members of the public were asked the same two questions at six of the seven public forums, which resulted in 68% 'tending to agree or strongly agree' that Suffolk police provides 'value for money' in their area, with 15% 'tending to disagree or strongly disagree' and the remaining 17% 'neither agreeing nor disagreeing'.
- 2.45 In answer to the second question, 52% were prepared to 'pay a little more (equating to between £2 and £7 a year more depending on their council tax band)', with 35% being 'broadly happy with the current amount', and the remaining 13% being 'concerned that they were already paying too much'.
- 2.46 In addition to the consultation and survey results summarised above, comments received from the ratepayers representatives on the PCC's proposals for expenditure will be taken into account by the PCC in preparing his proposed 2014-15 precept for policing in Suffolk, which will be presented to the Police and Crime Panel on 31 January 2014.

3 CAPITAL PROGRAMME 2014-18

- 3.1 The proposed outline capital programme has been updated to 2017-18, and plays an integral part in delivering the infrastructure that will support the Constabulary in maintaining and improving its operational performance. The revenue consequences of the proposed capital programme have been fully taken into account in preparing the MTFP.

Outline Spending Plans

- 3.2 **Appendix D** provides a more detailed analysis of the outline capital programme over the medium term, with the table below summarising these plans.

	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000
Recurring schemes				
ICT	503	555	947	619

Estates				
Vehicles and Equipment	1,154	1,284	1,180	1,122
Total recurring schemes	1,657	1,839	2,127	1,741
Projects				
ICT	558	292		9
Estates	420	945	1,896	1,683
Other	18	37	3	0
Total Projects	996	1,274	1,899	1,692
Slippage – projects spanning financial years 13/14 and 14/15	1,541			
Grand Total	4,194	3,113	4,026	3,433

Capital Expenditure on Recurring Schemes

- 3.3 Recurring capital costs for ICT are predominantly equipment replacement and updating.
- 3.4 Recurring costs for estates include minor improvement works and the strategy budget, which is used to facilitate internal and external moves.
- 3.5 Recurring capital costs for fleet are for replacement vehicles and equipment used to service them.

Capital Expenditure on Projects

- This section contains one-off expenditure for specific items, including some significant collaborative arrangements designed to deliver future operational efficiencies and recurring financial savings;
- Automatic Number Plate Recognition Back Office Function (ANPR BOF) - Single BOF for the two forces to replace outdated technology and support a new joint ANPR Hub;
- Livelink Project – Development of Live Link Project following pilot to main police stations in Norfolk & Suffolk. Further development of the project to include video remands from PICs to Courts;
- Replacement of Back Office System (ERP) – A contract has now been signed for the implementation of an Enterprise Resource Planning system for Norfolk & Suffolk (covering Finance, Payroll, Procurement, Duties Management, HR and Learning and Development);
- Estates Re-provision – as a core part of the Suffolk Estates Strategy, the PCC will continue to dispose of estate infrastructure that is either too large or not fit for purpose, and replaces it with premises that better meet need operational and service requirements. The re-provision will be financed by the sale of existing properties.

Funding the Capital Programme

- 3.6 Funding of the capital programme is provided from a number of sources. Building schemes tend to have a longer life span, typically up to 50 years. As a general rule, these will be funded from capital receipts from buildings that are being replaced and from long-term borrowing.
- 3.7 Vehicles and equipment tend to have a shorter lifespan, typically 3 to 7 years. In the first instance these items will be funded from capital grant, specific grant or revenue contribution. However, the ongoing replacement cost of vehicles and ICT assets and the required investment in collaborative initiatives is greater than the level of capital grant received. The forecast assumes that revenue contributions will fund the shortfall in the programme.
- 3.8 The following funding sources have been identified to support the outline capital programme (**Appendix D**), which will be updated to take account of approved changes to the

programme. In addition, funding will move with the asset whenever there is slippage in the programme.

	2014-15	2015-16	2016-17	2017-18
	£m	£m	£m	£m
Capital Receipts	2.5	1.5	1.1	3.1
Capital Grant	1.0	1.0	1.0	1.0
Revenue Contribution	0	0	0.9	0
Capital Financing Reserve	0	0.4	0.3	0
Use of Change Reserve	0.7	0.2	0	0
Back-funded	<u>0</u>	<u>0</u>	<u>0.7</u>	<u>(0.7)</u>
Total	4.2	3.1	4.0	3.4

- 3.9 Each PCC receives a capital grant, which must be used to support capital expenditure. The Home Office has confirmed the capital grant allocation for Suffolk of £1.0m for 2014-15.

Minimum Revenue Provision (MRP)

- 3.10 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 place a duty on authorities 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.
- 3.11 MRP is only used where funding of the asset does not use revenue contributions, capital grants or receipts from asset sales. MRP is charged annually against the Revenue Account reflecting the cost of the asset over its life. The MRP for 2014-15 of £315k and values for the following three years are detailed in **Appendix D**.

4 ANNUAL TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2014-15

Treasury Management Strategy

- 4.1 Government regulations require the PCC to approve the investment and borrowing strategies and borrowing limits for 2014-15 prior to the start of the financial year. This is incorporated within an over-arching Treasury Management Strategy, which is attached as **Appendix H**.
- 4.2 The Treasury Management Strategy, which includes a number of Prudential Code and Treasury Management Indicators (**Appendix H**), and Lending Limits and proposed List of Approved Institutions (**Appendix I**) have been developed in accordance with the latest guidance issued by the Audit Commission and CIPFA.

Compliance with the Prudential Code

- 4.3 PCCs have flexibility over capital investment in fixed assets that are central to the delivery of appropriate standards of public services. Levels of borrowing can be determined locally, provided that capital investment plans are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with sound professional practice and in a manner that supports prudence, affordability and sustainability. The Prudential Code is a statutory piece of legislation, compliance with which ensures prudent financial management.
- 4.4 To demonstrate that these objectives have been fulfilled, the Prudential Code sets indicators that must be determined by the PCC. They 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 2014-15 are provided in **Appendix H**. Progress against the indicators will be monitored and reported during the year. The indicators can be changed during the year with the approval of the PCC CFO.

5 RESERVES STRATEGY

Reserves Strategy

- 5.1 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 fallback to cover exceptional unforeseen circumstances), or earmarked for specific purposes. The PCC complies with the definition of reserves contained within CIPFA's Accounting Code of Practice.
- 5.2 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.
- 5.3 The minimum prudent level of reserves is a matter of judgement rather than prescription. Neither CIPFA nor statute sets a minimum level of reserves. In determining the level and type of reserves, the PCC has to take into account relevant local circumstances and the advice of the Chief Constable and PCC CFO and CC CFO in making a reasoned judgement on the appropriate level of its reserves.
- 5.4 The ultimate use of reserves will be dependent upon both the timing and level of costs and saving over the period of the MTFP.

General Reserve and Earmarked Reserves

- 5.5 The PCC's reserves consist of two main categories:
- General Reserve – this 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, comparisons with similar bodies and the risk of unforeseen expenditure occurring;
 - Earmarked Reserves – These are reserves that are held for a specific purpose, whereby funds are set aside for future use when that specific purpose arises.
- 5.6 In line with the Reserves Strategy, both the PCC CFO and the PCC CFO have jointly reviewed the current purpose of each reserve, which resulted in a rationalisation of the number of reserves, with the impact of these changes being reflected in **Appendix F**.

Forecast Use of Reserves

- 5.7 A description of the purpose of each of the PCC's reserves, together with a summary of the projected use and level of reserves over the MTFP period is set out in **Appendix F**. The closing balances as at 31 March 2014 are dependent upon decisions taken by the PCC as part of out-turn report for 2013-14 to be considered in June 2014.

SECTION 25 RESPONSIBILITIES

- 6.1 Under Section 25 of Part II of the Local Government Act 2003, there is a specific requirement for the PCC CFO and the CC CFO to report on the robustness of the budget estimates, the adequacy of balances and reserves and issues of financial risk before the statutory budget decisions are taken.

Robustness of Budget Data

- 6.2 In regard to the robustness of budget information, confidence in this data is the subject of regular review and it has reconfirmed that the processes followed this year (which are the same as that adopted in the previous year's budget setting round) remain sound.
- 6.3 The integrated financial planning model provides the high-level financial data that is used to generate the annual revenue and capital budgets, all of which are reconciled to control totals.
- 6.4 A comprehensive review of the various savings programmes has been undertaken with the Programme Management Office (PMO) and finance staff from both Norfolk and Suffolk Constabularies, and CFO's, resulting in greater financial clarity and consistency in financial plans.
- 6.5 In summary, we are satisfied that the financial data contained within this report is robust; the assumptions underpinning the MFTP have been rigorously reviewed and challenged, and can be relied upon when considering the financial proposals contained in the report and related appendices.

Managing Financial Risk

- 6.6 The Constabulary and PCC are undertaking a substantial number of projects in collaboration with Norfolk constabulary, other forces and public sector partners, all of which have degrees of risk. Successful delivery of these projects is important, as they are a key element of the ambitious savings plans detailed in **Appendix C** and paragraphs 2.25 to 2.29.
- 6.7 Risk registers are in place for all the major projects and robust project management principles are being utilised to help minimise the possibility of not delivering the changes on time or within budget. Any delays in securing planned capital receipts will be managed through the re-phasing of capital investments.
- 6.8 The review of the savings programme described in paragraph 6.4 above concluded with a joint decision being taken by both CFO's to prudently reduce the projected level of savings from a number of the CSR 2 related schemes described in paragraphs 2.26 and 2.28 from £4.4m to £3.5m over the period of the MTFP.
- 6.9 Paragraphs 2.39 and 2.40 make reference to a recent statement that the Government will not confirm the 2014-15 threshold levels for council tax rises, which would trigger a referendum among voters, until 5 February 2014. It is estimated that if the threshold for a referendum is set below the 1.997% council tax rise in option 2, and therefore triggers the requirement for a referendum and the re-billing of council tax bills, the estimated cost would be in the region of £700k.

Adequacy of Reserves

- 6.10 The projected levels of reserves are detailed in **Appendix F**. Over the MTFP period, the general reserve is planned to be constant at £5.0m, which equates to 4.4% of Net Revenue Expenditure (NRE) in 2014-15.
- 6.11 The two principle reasons for the reduction in the overall level of reserves from £16.7m at 31 March 2014 to £11.8m at 31 March 2018 is accounted for by the planned use of the Change Reserve to fund the one-off costs of change arising from various efficiency savings initiatives and the additional cost of the approved temporary increase of 20 police officers in 2014-15 and 2015-16.
- 6.12 The Budget Reserve is available to; pump-prime initiatives which will deliver permanent savings; fund the cost of major crime incidents; fund the cost of other projects approved by the PCC.

- 6.13 The CIPFA guidance notes on reserves include the statement that ‘*A well-managed authority, for example, with a prudent approach to budgeting should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed*’.
- 6.14 Having considered the levels of reserves included in the MTFP, which are based on the Chief Constable’s commitment to work with the PCC to balance the budget over the period of the MTFP without further reliance on reserves, and taking account of the approach to managing financial risk set out in Section 6, our 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.

7 CONCLUSION AND SUMMARY OF OPTIONS

- 7.1 The MTFP has been prepared following notification of the 2014-15 government grants via the Home Office on 18 December 2013 and in conjunction with a wide range of assumptions summarised in Section 2 of this report.
- 7.2 Delivery of a balanced budget across the 4-year planning period is dependent upon the Constabulary delivering the current cumulative savings plans (CSR 1 and 2) of £2.3m, £3.8m, £5.8m and £6.1m respectively over the 4 years of the MTFP period, and in addition, cumulative savings initiatives (which the Chief Constable has a given commitment to work with the PCC to balance the budget over the period of the MTFP without further reliance on reserves) to be achieved of:
- Option 1- £0.14m, £2.8m, £6.9m, and £10.2m over the 4 years of the MTFP
 - Option 2- nil, £2.0m, £5.3m, and £7.8m over the 4 years of the MTFP.
- 7.3 Under both options, whilst it is possible in 2014-15 to invest in key developments (paragraph 2.20) and maintain police officer numbers at around 1,200, PCSOs at 143, and specials at 300, it will be necessary to consider the operational, staffing and financial implications of the emerging plans which will address the remaining savings requirement set out in the paragraph above.
- 7.4 The two alternative council tax requirement and budget options are proposed to the PCC for consideration, the financial consequences of which are summarised in **Appendices A (i), A (ii) and G**.

8 RECOMMENDATIONS

- 8.1 It is recommended that the PCC:
- (i) Takes account of the overall financial strategy, when considering the 2014-15 budget proposals;
 - (ii) Approves funding of the known changes to the 2013-14 base revenue budget set out at **Appendix B**;
 - (iii) Approves the savings plans in **Appendix C**;
 - (iv) Approves the proposed capital programme for 2014-15 and the draft capital programme over the medium term as set out at **Appendix D**;
 - (v) Approves the Treasury Management Strategy, Prudential Indicators, Treasury Management Indicators, Borrowing Limits in **Appendix H**, and Lending Limits and List of Approved Institutions in **Appendix I**;
 - (vi) Approve the proposed use and transfer of reserve balances in **Appendix F**;
 - (vii) Considers the medium-term financial impact of **Options 1 and 2 (Appendices A (i) and (ii), and G)**, the assessment of financial risks in Section 6, and results of the public consultation and surveys summarised in paragraphs 2.41-2.46, when proposing the precept level and council tax requirement for 2014-15.

THE OFFICE OF THE POLICE AND CRIME COMMISSIONER FOR SUFFOLK**ANNUAL TREASURY MANAGEMENT STRATEGY & PRUDENTIAL INDICATORS 2014-15****1. INTRODUCTION**

- 1.1 The Office of the Police and Crime Commissioner for Suffolk (PCC) has prepared this document under the recommendations of the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.
- 1.2 The aim of this document is to ensure that treasury management is led by a clear and integrated strategy, and recognition of the pre-existing structure of the PCC's borrowing and investment portfolios.

2. TREASURY MANAGEMENT OVERVIEW

- 2.1 The PCC defines its treasury management activities as

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

3. TREASURY MANAGEMENT POLICY

- 3.1 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.
- 3.2 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.
- 3.3 The PCC will create and maintain suitable treasury management practices ('TMPs'), setting out the manner in which it will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. These are detailed below, and follow the recommendations contained in the Code of Practice, subject only to amendment where necessary to reflect the particular circumstances of the PCC without materially deviating from the Code's key principles.

4. TREASURY MANAGEMENT PRACTICES

- 4.1 **TMP 1: Risk Management.** The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the PCC's objectives in this respect.

This includes the following risks;

- Credit and Counterparty Risk
- Liquidity Risk

- Interest Rate Risk
- Exchange Rate Risk
- Refinancing Risk
- Legal and Regulatory Risk
- Fraud, Error, Corruption and Contingency Management
- Market Risk

- 4.2 **TMP 2: Performance Management.** Treasury management will be the subject of on-going analysis of the value added in support of the PCC's stated business or service objectives.
- 4.3 **TMP 3: Decision Making and Analysis.** Full records will be maintained of the PCC's treasury management decisions.
- 4.4 **TMP 4: Approved Instruments, Methods and Techniques.** The PCC will undertake its treasury management activities by employing only approved instruments, methods and techniques as detailed in this document.
- 4.5 **TMP 5: Organisation, clarity & segregation of responsibilities, and dealing arrangements.** The PCC considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, that there is a clarity of responsibilities. There will be a clear distinction between those charged with setting policies and those charged with their control and implementation, in particular with the execution and transmission of funds, the administering of decisions, and the audit and review of the treasury management function. If there is a departure from these principles due to a lack of resources, the implications are to be properly considered and evaluated. The responsible officer will ensure that those engaged in treasury management will follow all policies and procedures, that there is proper documentation for all transactions, and that procedures exist for the effective transmission of funds.
- 4.6 **TMP 6: Reporting Requirements and Management Information Arrangements.** As a minimum the PCC will receive an annual report on the strategy and plan to be pursued in the coming year as well as a performance review. The PCC will receive regular monitoring reports on treasury management activities and risks.
- 4.7 **TMP 7: Budgeting, Accounting and Audit Arrangements.** The PCC will account for its treasury management activities in accordance with appropriate accounting practices and standards.
- 4.8 **TMP8: Cash and Cash flow management.** All of the PCC's funds will be aggregated for cash flow and investment purposes. Cash flow projections will be prepared on a regular basis and be adequate for compliance with TMP1: Risk Management.
- 4.9 **TMP9: Money Laundering.** The PCC is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money, and will maintain procedures for reporting suspicions.
- 4.10 **TMP10: Training and Qualifications.** The PCC recognises the importance of ensuring that all staff involved in treasury management are fully equipped to undertake the duties and responsibilities allocated to them and have access to relevant training.
- 4.11 **TMP11: Use of External Service Providers.** Although brokers are used for market information and for the execution of some deals, the PCC recognises that responsibility for treasury management decisions remains with itself at all times.
- 4.12 **TMP12: Corporate Governance.** The PCC has adopted and implemented the key principles of the CIPFA Treasury Management Code of Practice. This together with the

arrangements detailed in this document, are considered vital to the achievement of proper corporate governance in treasury management.

5. TREASURY MANAGEMENT RESPONSIBILITIES

- 5.1 The PCC delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Chief Finance Officer, and for the execution and administration of treasury management decisions to the Financial Accountant, who will act in accordance with the PCC's policy statement and TMPs, CIPFA's Standard of Professional Practice on Treasury Management, and within the guidelines outlined in the Bank of England's Non-Investment Products Code.
- 5.2 The PCC nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

6. INVESTMENT STRATEGY

- 6.1 It is recommended that the current investment strategy continues in 2014/15, whereby the PCC only lends via the money markets, or places funds in direct accounts, with eligible institutions on the Approved lending list, i.e.

- UK Government (HM Treasury)
- Bank of England
- All Local Authorities
- CCLA Public Sector Deposit Fund
- UK Banks and Building Societies (minimum of P-1 rating from Moody's)
- Wholly owned UK subsidiaries of the above

A full list of approved institutions is shown in Appendix G. The PCC pays an annual subscription to the rating agency Moody's, and is alerted by e-mail of any changes in the credit rating for any of its approved institutions. The PCC does not rely solely on this service, but supplements it with information gained via brokers in the money markets or through research via the internet. The Chief Finance Officer is advised should any concerns arise, and the Approved Lending List can be revised immediately if necessary.

- 6.2 The PCC currently only invests in

- instant access and fixed notice bank accounts,
- money market funds (pooled, managed, high quality liquid investment accounts)
- fixed term deposits up to 364 days in duration
- interest rate collars (fixed term deposits with a minimum and maximum rate of interest).

Any requirement to invest in additional products must be approved by the Chief Finance Officer.

- 6.3 A reasonable amount should 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 withdraw funds should any concern arise over a particular institution.

- 6.4 Cash flow forecasting will be used to calculate the total available for investment, with a balance retained in the PCC's main bank account to cover the expected net cost of forecasted cash flows.

7 INVESTMENT PERFORMANCE 2013-14

- 7.1 In line with the Treasury Management strategy approved by the PCC, all surplus funds were invested with institutions on the Approved Lending List in either instant access /fixed notice accounts, money market funds, or fixed term deposits. Despite the government benchmark rate of 0.25% (the rate paid by HM Treasury through the Debt Management Office), the PCC is expected to achieve a return of around 0.57% for 2013-14, and exceed the budget of £100k.
- 7.2 The return achieved in 2013-14 was lower compared to that achieved in 2012-13 due to the fall in rates on short term deposit accounts, as banks looked to meet new requirements to attract longer-term funds for liquidity purposes. In addition rates fell as an effect of the Bank of England's Funding for Lending Scheme which offered Banks funds at low rates in order for them to be able offer reduced rate mortgages and loans. This meant they no longer needed to pay high interest rates on short term deposits to attract funds. However, the Funding for Lending scheme is to be scaled down in 2014, and therefore there may be a return to more competitive rates.
- 7.3 At the start of 2014 short term interest rates remain at or near to the base rate of 0.50%, and are not forecast to move significantly during 2014-15, with the Bank of England base rate itself predicted to remain unchanged.

8 BORROWING STRATEGY

- 8.1 The borrowing strategy will comply with the policy agreed by the PCC against the provisions of the Prudential Code for Capital Finance. This includes the following as a key indicator of prudence:

'In considering the affordability of its capital plans, the PCC is required to consider all of the resources currently available to it or estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years. The authority is also required to consider known significant variations beyond this timeframe. This requires the development of three year revenue forecasts as well as three year capital expenditure plans. These are rolling scenarios, not fixed for three years'.

- 8.2 For the PCC, the borrowing strategy principally relates to long-term loans. Capital expenditure in excess of the available capital resources or revenue contributions will increase the PCC's borrowing requirement.
- 8.3 In May 2010 Suffolk Police Authority borrowed £10m from the Public Works Loan Board (PWLB) for a period of 25 years, to fund the purchase of property in conjunction with Suffolk County Council. The PWLB is a statutory body operating within the Debt Management Office, an Executive Agency of HM Treasury, and its function is to lend money from the National Loans Fund to local authorities and other prescribed bodies. This debt is being managed as part of the Treasury Management activities.

9 PRUDENTIAL CODE INDICATORS

- 9.1 The key objectives of the CIPFA Prudential Code for Capital Finance in Local Authorities are to ensure that capital plans are affordable, prudent and sustainable. The Code specifies indicators that must be used and factors that must be taken into account. Once determined these indicators can be changed so long as this is reported to the PCC. As well as capital

expenditure and debt, the code also requires the PCC to set and monitor performance on treasury management

9.2 The main Prudential Indicator in respect of treasury management is that the PCC has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The recommendations in the Code have been used in preparing this document

9.3 There are also four treasury management related indicators, the purpose of which is to manage risk and reduce the impact of an adverse movement in interest rates.

Upper limit for fixed interest rate exposure (% of total invested)			
2014/15	2015/16	2016/17	2017/18
100%	100%	100%	100%

Upper limit for variable interest rate exposure (% of total invested)			
2014/15	2015/16	2016/17	2017/18
100%	100%	100%	100%

Upper limit for total principal sums invested over 364 days (£)			
2014/15	2015/16	2016/17	2017/18
0	0	0	0

Maturity Structures of Borrowing				
>1 year	1 - 2 years	2-5 years	5-10 years	10+ years
0%	0%	0%	0%	100%

9.4 The PCC's Capital Financing Requirement is a measure of its underlying borrowing need; it is the outstanding capital expenditure which is not funded by either revenue or capital receipts, or by capital grants. Estimates for the end of the next four years are:

Capital Financing Requirement				
	2014/15	2015/16	2016/17	2017/18
Police Investigation Centres (PICS) Via Private Finance Initiative (PFI)	£24.4m	£24.1m	£23.8m	£23.5m
Other	£12.1m	£11.8m	£12.1m	£11.0m
TOTAL	£36.5m	£35.9m	£35.9m	£34.5m

9.5 The PCC is required to approve the Authorised Limits for its expected maximum total external borrowing, excluding investments, for the next four years. The Authorised Limits will need to provide headroom over and above the Operational Boundary, sufficient for unusual cash movements.

9.6 The recommended authorised limits are in the table below and are consistent with the PCC's current commitments, existing plans and the proposals for capital expenditure and

financing, and with the treasury management policy statement and practices. Figures for borrowing and other long-term liabilities are identified separately.

Authorised Limit for External Borrowing				
	2014/15	2015/16	2016/17	2017/18
Borrowing	£15.0m	£15.0m	£15.0m	£15.0m
Other long term liabilities (PFI)	£26.0m	£26.0m	£26.0m	£26.0m
TOTAL	£41.0m	£41.0m	£41.0m	£41.0m

9.7 The PCC is also required to set an Operational Boundary for external debt for the same period, being the projected maximum level of debt. This will always be a lower figure than the Authorised Limit for external borrowing. CIPFA guidance states 'it will not be significant if the operational boundary is breached temporarily on occasions due to variations in cash-flow. However a sustained or regular trend above the operational boundary would be significant and should lead to further investigation and action as appropriate'

Operational Boundary for External Debt				
	2014/15	2015/16	2016/17	2017/18
Borrowing (PWLB)	£8.9m	£8.6m	£8.4m	£8.1m
Other long term liabilities (PFI)	£24.4m	£24.1m	£23.8m	£23.5m
TOTAL	£33.3m	£32.7m	£32.2m	£31.6m

THE OFFICE OF THE POLICE AND CRIME COMMISSIONER FOR SUFFOLK LENDING LIMITS AND LIST OF APPROVED INSTITUTIONS 2014-15				
Banks and Building Societies - Maximum of 1 year (364 days) unless stated*				
OWNER		COUNTERPARTY	LICENCE	MOODY'S RATING
BANCO SANTANDER CENTRAL HISPANO	£10m	Santander UK INSTANT ACCESS ONLY	Santander UK plc	A2/P-1
BARCLAYS BANK PLC	£10m	Barclays Bank	Barclays Bank plc	A2/P-1
HSBC BANK PLC	£5m	HSBC	HSBC Bank plc	Aa3/P-1
LLOYDS BANKING GROUP	£15m	Lloyds TSB	Lloyds TSB Bank plc	A2/P-1
NATIONWIDE BUILDING SOCIETY	£5m	Nationwide Building Society	Nationwide Building Society	A2/P-1
STANDARD CHARTERED BANK	£5m	Standard Chartered Bank	Standard Chartered Bank	A1/P-1
Others - Maximum of 1 year (364 days)				
BANK OF ENGLAND	£5m			
ALL LOCAL AUTHORITIES	£5m			
CCLA (Churches, Charities & Local Authorities)	£5m	Public Sector Deposit Fund		
HM TREASURY	£10m	Debt Management Office		
100% owned UK Subsidiaries of Banks with limits as above				

Note on Ratings:

"P" Prefixes are short-term ratings.

"P-1" indicates that issuers or supporting institutions have a **superior** ability to repay short-term debt obligations.

"P-2" indicates that issuers or supporting institutions have a **strong** ability to repay short-term debt obligations.

"P-3" indicates that issuers or supporting institutions have an **acceptable** ability to repay short-term debt obligations.

The PCC Policy only allows investment with P-1 rated issuers or institutions.

Ratings prefixed A, B, or C are long-term ratings of relative credit risk.

A ratings have very low or minimal risk, B are subject to moderate risk and C are judged to be of poor standing.

The PCC policy only allows investment with A rated issuers or institutions.

Within the A rating there are several categories:

"Aaa" are of the highest quality with minimal risk.

"Aa" are of the high quality with very low risk.

"A" are of upper-medium grade with low risk.

Moody's ratings are as at 11th December 2013