

ORIGINATOR: JOINT PCC and CC CFO

DECISION NO. 5-2019

REASON FOR SUBMISSION: FOR DECISION

SUBMITTED TO: POLICE AND CRIME COMMISSIONER

SUBJECT: MEDIUM TERM FINANCIAL PLAN 2019-20 to 2022-23

SUMMARY:

1. The draft Medium Term Financial Plan (MTFP) sets out the key financial issues facing the PCC and Constabulary over the period 2019-20 to 2022-23.
2. It also includes information and recommendations relating to the revenue budget, capital programme and associated financing issues, together with a financial appraisal of two precept options.

RECOMMENDATION:

It is recommended that:

1. The PCC considers the attached draft Medium Term Financial Plan 2019-20 to 2022-23, and approves the recommendations contained therein.
2. When setting the precept level and council tax requirement, consideration is given by the PCC to the medium-term financial implications of Options 1 and 2, the assessment of financial risks detailed within the MTFP, and the Chief Constable's commentary on the financial position.

APPROVAL BY: PCC

The recommendations above are approved.

Signature

Tim Parnmore

Date

*16th January
2019*

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 Draft Medium Term Financial Plan (MTFP) 2019-20 to 2022-23 provides information relating to the proposed revenue budget (including planned revenue changes and savings plans), capital programme, alternative precept levels and council tax requirement, associated financing issues, and recommends that the PCC:

Takes account of the overall financial strategy, when considering the 2019-20 budget proposals, and

- (i) Approves the planned revenue changes summarised in **Appendix B**;
- (ii) Approves the savings plans in **Appendix C**;
- (iii) Approves the proposed capital programme for 2019-20 and the draft capital programme over the medium term as set out at **Appendix D**;
- (iv) Approves the Investment and Treasury Management Strategy in **Appendix E**;
- (v) Approves the Capital Strategy in **Appendix F**;
- (vi) Approves the proposed use and transfer of reserve balances in **Appendix G**;
- (vii) Approves the proposed change to the MRP policy in **Appendix H**;
- (viii) When setting the precept level and council tax requirement, consideration is given to the medium-term financial implications of Options 1 and 2, the assessment of financial risks detailed within the MTFP, and the Chief Constable's commentary on the financial position.

1.3 The report also asks the PCC to consider the medium term financial impact of:

- **Option 1**- increase council tax by just less than £12 per annum for a band D property in 2019-20 and just less than 2% in the last three years of the MTFP
- **Option 2**- increase council tax by just less than £24 per annum for a band D property in 2019-20 and just less than 2% in the last three years of the MTFP.

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.

Option 1

2.2 Based on the planning assumptions set out in this report, further savings of £4.670m are required to be made in the period 2019-20 to 2022-23, in order to achieve a balanced budget over the period of the MTFP.

Option 2

2.3 Based on the planning assumptions set out in this report, further savings of £1.375m are required to be made in the period 2020-21 to 2022-23, in order to achieve a balanced budget over the period of the MTFP.

2.4 The two alternative budget options are proposed to the PCC for consideration, the financial consequences of which are summarised in **Appendices A(i), A(ii), I and J**.

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 joint PCC CFO and CC CFO is the author 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 1.18-1.20 of the MTFP
Has communications advice been sought on areas of likely media interest and how they might be managed?	Yes
Have all relevant ethical factors been taken into consideration in developing this submission	Yes

APPROVAL TO SUBMIT TO THE DECISION-MAKER

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 14 January 2019



**MEDIUM TERM
FINANCIAL PLAN
2019-20 TO 2022-23**

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1 INTRODUCTION

- 1.1 By way of a context in which to consider this Medium Term Financial Plan, it is important to note the outcome of the most recent HMIC PEEL: Police Efficiency 2017 Report published on 12 December 2017, where Suffolk Constabulary is judged to be good in the efficiency with which it keeps people safe and reduces crime. The overall judgment this year is the same as last year. The Constabulary is judged to be good in its understanding of demand; its use of resources to manage demand is assessed to be good; and its planning for future demand is also judged to be good.
- 1.2 The total cost of policing per person per day in Suffolk is 43 pence per day, compared to the national average for England and Wales of 51 pence per day.
- 1.3 This report covers the spending proposals and key issues relating to the budget for 2019-20 to 2022-23. 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.
- 1.4 The report contains appendices that provide more detailed information relating to the proposals.
 - Appendix A (i) MTFP- 4 Year Overview- Option 1- increase council tax by nearly £12 for 2019-20 (6.3% in 2019-20) and just less than 2% in the last three years of the MTFP
 - Appendix A (ii) MTFP- 4 Year Overview- Option 2- increase council tax by nearly £24 for 2019-20 (12.7% in 2019-20) and just less than 2% in the last three years of the MTFP
 - Appendix B Planned Revenue Changes 2019-20 to 2022-23
 - Appendix C Savings Plan 2019-20 to 2022-23
 - Appendix D Capital Programme 2019-20 to 2022-23
 - Appendix E Investment and Treasury Management Strategy
 - Appendix F Capital Strategy
 - Appendix G Reserves Strategy
 - Appendix H Minimum Revenue Provision Statement
 - Appendix I Precept Option Scenarios
 - Appendix J Precept Level and Council Tax Requirement Options.

The challenging funding context

- 1.5 Since 2010 the financial context for policing has been very challenging. The "cash" Suffolk receives now (main grant, precept and specific grants) is still less than it received in 2010/11. When taking account of actual pay inflation, and average inflation for non-pay, this equates to £17m in real terms since 2010.
- 1.6 In addition, the Constabulary has had to absorb other costs such as the impact of the introduction of the Single Tier Pension (£1.8m), the Apprenticeship Levy (£0.4m), as well as other increases such as those connected to pension contributions and insurance premium tax.
- 1.7 In common with other forces across the country, the Constabulary continues to face significant service pressures due to the changing nature of crime. Whilst Suffolk remains a safe county, the Constabulary is dealing with continuing increases in reports of knife crime and youth violence, domestic abuse, rape and serious sexual offences, adult and child abuse and allegations of cyber enabled and other forms of fraud. These are some of the most complex and demanding investigations the service has to undertake and they require a highly skilled workforce. As a result Suffolk Constabulary is facing some significant cost pressures are addressed as part of the development of the Medium Term Financial Plan.
- 1.8 The Constabulary continues to deal with the impact of the shortage in resources of other public sector partners, in particular mental health and ambulance services, resulting in the Constabulary having to absorb additional demand from these areas as the emergency service of last resort.

- 1.9 The funding context for the future continues to be challenging. In the MTFP, inflation is forecast at 2% for pay and 2% for non-pay, equating to over £2.5m of funding pressure each year, and this is before other pressures such as those outlined above are included.
- 1.10 Also, to remain as efficient as possible, the Constabulary must 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, including body worn video, is significant and has a direct impact on the revenue budget.

Service and Financial Planning process and consultation

- 1.11 Since 2010, in response to the challenging financial situation as set out in section 2, the Constabulary has been running a successful Change Programme that has delivered £30m (to 31 March 2018) since its inception. A significant portion of that programme has been delivered through collaboration with Norfolk Constabulary (see paragraphs 2.21 to 2.23).
- 1.12 A joint (Suffolk and Norfolk) financial planning process has been on-going over recent months in accordance with an agreed timetable. An enhanced Service and Financial Planning process has been developed using Outcome Based Budgeting (OBB) principles, and an improved OBB modelling tool. This is the third year that OBB has been used, and improvements to the process have been made again this year particularly through the inclusion of future demand projections assessed as part of the production of the Constabulary's first Force Management Statement ((FMS) a strategic document that examines demand and risk impact on Suffolk Constabulary services) in May 2018 and gaps in the organisation's policing capability.
- 1.13 OBB is a method for aligning budgets to demand, performance, outcomes and priorities. This approach analyses the activity spending of the entire Force, in terms of budgets, establishment, performance, demand and outcomes. This information is then lined up against the priorities and demands of the Constabulary and PCC. This allows projects to be developed to target areas that can be made more efficient, as well as reviewing areas requiring further investment.
- 1.14 Heads of Department presented savings and investment proposals, and these were modelled against the impact on budgets and outcomes. These outcomes were then reviewed by a Joint Chief Officer Panel against the OBB principles and decisions made about limiting growth and increasing savings. An updated view of the Change Programme (see below) has also been developed.
- 1.15 These outputs were then presented to the Joint Chief Officer Team, and further refined after these sessions. Finally, the outcomes of the process were presented to the PCC. The process concluded with agreement on 'Suffolk only' budgets, the agreement of joint budgets, and costs and savings arising from the process to be included in spending plans.
- 1.16 Given the levels of savings to be found it is important that the Change Programme is sustained over the medium-term to ensure that savings are driven out in a timely fashion to ensure annual budgets are balanced.
- 1.17 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 rolling four-year strategic and financial planning cycle, including the current year. The figures contained within the strategy are based upon current information and stated assumptions.
- 1.18 In accordance with the requirements of Section 96 (1) (b) of the Police Act 1996, as amended by section 14 of the Police Reform and Social Responsibility Act 2011, the PCC has an obligation to obtain the views of ratepayer representatives.
- 1.19 During the year the PCC organised a series of public meetings, one in each of the local authority districts and boroughs. He also hosts regular meetings with local businesses to discuss policing issues, including representatives from the Suffolk Chamber of Commerce, the National Farmers

Union (NFU), the Country Land and Business Association (CLA), Ipswich and Suffolk Small Business Association (ISSBA), the Federation of Small Businesses (FSB) and the Road Haulage Association (RHA). The PCC also meets with general interest groups such as ProBus, Rotary and the Women's Institute and residents groups such as Neighbourhood Watch.

- 1.20 A public survey on the PCC's proposal for the precept increase captured the views of 868 Suffolk residents. 69% responded positively to the question "As a council taxpayer in Suffolk do you agree with my proposal to increase the policing element of the council tax for 2019/20 by £2 a month?" and 31% answered no.

2 **REVENUE BUDGET 2019-20**

Home Office Grant 2019-20

- 2.1 In recent years government have only issued one year funding settlements for PCCs, and force-by-force provisional detailed grant announcements are only made in December for funding commencing the following April. This creates a challenging planning environment particularly during an extended period of constrained central government funding (that has seen a 32% real terms cut for Suffolk since 2010/11).
- 2.2 The provisional central government grant settlement announcements were made on 13 December 2018. The proposals in this report are based on the provisional settlement, final local tax base figures and planning assumptions regarding future funding levels, on-going commitments and capital expenditure plans.
- 2.3 The table below provides a comparison between the 2019-20 provisional grant settlement and 2018-19 figures.

	2018-19 £m	2019-20 £m	Variance %
Police Main Grant	62.701	64.018	2.1
Legacy Council Tax Grants	<u>6.786</u>	<u>6.786</u>	<u>0.0</u>
Total General Grant Allocation	69.487	70.804	1.9

- 2.4 The Legacy Council Tax grants are based on two historic elements. The first element is in respect of former Council Tax Freeze Grants of £1.895m relating to the decision to freeze the Council Tax in 2011-12, 2013-14 and 2014-15. The second element relates to the Council Tax Support Grant of £4.891m that has been payable since April 2013 when the Government made significant changes to Council Tax Benefit arrangements.
- 2.5 In addition to the general grant funding outlined above, a specific grant is to be received to cover an element of the increased employer contributions for the police officer pension schemes (see para 2.9).
- 2.6 The Home Office has "re-allocated" (top sliced) £1.029b in total from the national grant pot (9% higher than the £945m in the prior year). The increase of £84m relates to tackling Serious and Organised Crime, including additional allocations to NCA (£51m) and ROCUs (£4.8m), and an additional £48m to "strengthening the response to Organised Crime", offset by a reduction of £20m to the Special Grant.

Grant Damping and the Police Funding Formula

- 2.7 The Home Office had been engaging with the police sector on changes to the police funding formula in recent years. However, due to changing government priorities, plans for amending the formula, which were expected to take effect for 2018-19, have been postponed until the next Spending Review due in 2019.

- 2.8 As a result there were no changes to grant damping for 2018-19 and all PCCs' core Home Office grant funding has increased by 2.1% above the 2018-19 level.
- 2.9 The increase in core grant, along with the specific pension grant from the Home Office of £1.2m, does not fully fund the increase in employer contributions to the police officer pension schemes imposed by the Treasury and therefore this increase in funding is not available to spend on PCC or force priorities. police pensions.
- 2.10 In terms of precept, the written ministerial statement issued by the Home Secretary, the Rt Hon Sajid Javid MP, outlined that "We are also proposing to double the precept flexibility for locally accountable PCCs. Last year, we provided additional £12 precept flexibility. This year, we propose giving PCCs the freedom to ask for an additional £2 a month in 2019/20, to increase their Band D precept by £24 in 2019/20 without the need to call a local referendum".
- 2.11 The Home Secretary also stated that "Last year, we indicated we would provide a similar funding settlement in 2019/20, if the police made progress in delivering further commercial savings, used mobile digital working and increased financial reserves transparency. The police have delivered on these conditions and are on track to deliver £120m in commercial and back office savings by 2020/21 and move towards a new commercial operating model."
- 2.12 In terms of future funding the Home Secretary stated that "This settlement is the last before the next Spending Review, which will set long term police budgets and look at how resources are allocated fairly across police forces. The Home Office is grateful to the police for the good work they are doing to build the evidence base to support that work, and we will also want to see evidence that this year's investment is being well spent. In addition to working together to understand demand, we will be working with the police to present an ambitious plan to drive improved efficiency, productivity and effectiveness through the next Spending Review".
- 2.13 The PCC and Chief Constable are committed to supporting this process.
- 2.14 However, due to the uncertainty of what the 2019 Spending Review may deliver for PCCs and constabularies, the assumptions for future years are a return to 2% precept limits and "cash flat" central grant funding.
- 2.15 Confirmed funding for 2019-20 from the MoJ of £874k for victims services and restorative justice services, has been included in the MTFP for both grant income and planned expenditure.
- 2.16 The Council Tax base, which is a key factor in the calculation of the precept, is based on final information received from the Borough, District and County Councils.

The budget and precept 2019-20 and the Medium Term Financial Plan

2.17 The table below summarises the 2019-20 income position for;

- Option 1- increase in council tax in 2019-20 by just under £12 per annum, and
- Option 2- increase in council tax in 2019-20 by just under £24 per annum.

	Option 1 £m	Option 2 £m
Police Main Grant	64.018	64.018
Legacy Council Tax Grants	6.786	6.786
Precept Income	50.563	53.559
Other Income	9.330	9.330
Total Income (£m) in 2019-20	130.697	133.693

Assumptions in the Financial Model

2.18 The PCC's MTFP remains consistent in providing for; pay and price increases; growth to meet demand and service pressures; a significant change programme to make the required cost reductions; the use of reserves to support one off costs; invest to save measures, and the continued investment in modernising and improving technology.

2.19 The following financial assumptions have been used:

	19-20	20-21	21-22	22-23
Police main grant changes	2.1%	0%	0%	0%
Legacy council tax grant changes	0%	0%	0%	0%
Council tax base change	1.2%	1%	1%	1%
Collection fund surplus	£304k	£0k	£0k	£0k
Pay awards – officers	2%	2%	2%	2%
Pay awards – staff	2%	2%	2%	2%
Non-pay inflation (average)	2%	2%	2%	2%

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

	Variation	Variation £m
Main government grants	1.0%	0.6
Tax base increase	1.0%	0.5
Precept	1.0%	0.5
Pay awards officers (full year impact)	1.0%	0.6
Pay awards staff (full year impact)	1.0%	0.3
Non-pay inflation	1.0%	0.3

All the financial planning assumptions will be kept under review.

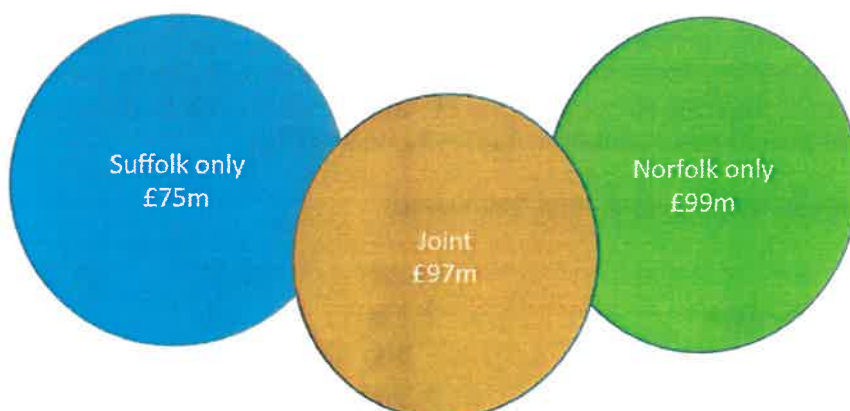
Change & Efficiency Programme and the Service and Financial Planning Process

Collaborative Change

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

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

Norfolk and Suffolk Collaboration



- 2.23 As part of the Service and Financial Planning process for 2019-20 to 2022-23, further savings of £3.3m in 2019-20 have been identified from the collaborative units (Suffolk's share £1.3m rising to £2.4m by 2022-23). These have been developed in consideration of the information in the first Force Management Statement (FMS) for Suffolk (a strategic document that examines demand and risk impact on Suffolk Constabulary services) and assessed in terms of risks and impact on outcomes using the principles contained within the FMS that incorporates OBB principles. Detailed business cases will now be prepared to realise these savings during 2019-20 and 2020-21.
- 2.24 As part of this process other areas have been identified and scoped to be developed into detailed business cases in the latter years of the plan (2020-21; 2021-22; 2022-23).
- 2.25 The savings programme themes, and the forecast phasing for realising the savings are set out in **Appendix C**.

Regional Collaboration

- 2.26 The PCCs and Chief Constables (CC) for the 6 police areas in the East of England together with the CC and PCC for Kent have confirmed their unanimous support for a 'Seven Force Strategic Collaboration Programme'. The costs of the work are being shared by the 7 Forces. Many streams of work are being pursued and work is focussing on getting the 7 Forces to 'converge' their processes.
- 2.27 A business case has been developed and approved by PCCs and CCs to bring together a regional 7 Force Commercial Procurement Team. Governance and legal agreements are in draft, and staff consultation is underway with the team set to be created in the early part of 2019. This team will make sure that all 7 forces go out to tender at the same time for the same goods and services for significant areas of spend and will also continue to oversee the development of the 7 Force commercial contractual "pipeline".
- 2.28 Modest savings are recognised in respect of 7 Force procurement savings in this MTFP. This is due to the fact that Norfolk and Suffolk has 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.

Precept Options

2.29 **Option 1**- increase council tax by nearly £12 per year in 2019-20 (and 2% each year thereafter).

	Budget	Forecast	Forecast	Forecast
	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000
6.34% Council Tax increase				
Total Funding (Grant + Precept)	(121,367)	(122,567)	(124,119)	(125,720)
Net Revenue Budget before changes and savings	116,005	118,401	120,845	123,338
REVENUE DEFICIT BEFORE KNOWN CHANGES	(5,362)	(4,166)	(3,274)	(2,382)
Known / Expected Changes	10,852	10,779	9,167	9,328
Planned use of reserves	(450)	0	1,248	863
REVENUE DEFICIT BEFORE SAVINGS	5,039	6,613	7,141	7,808
Planned Savings	(2,043)	(2,694)	(2,970)	(3,138)
Surplus / (Savings to be identified)	(2,996)	(3,919)	(4,171)	(4,670)
REVENUE DEFICIT / (SURPLUS) AFTER SAVINGS	0	0	0	0

2.30 **Option 2** - increase council tax by nearly £24 per year in 2019-20 (and 2% each year thereafter).

	Budget	Forecast	Forecast	Forecast
	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000
12.68% Council Tax increase				
Total Funding (Grant + Precept)	(124,363)	(125,661)	(127,313)	(129,015)
Net Revenue Budget before changes and savings	116,005	118,401	120,845	123,338
REVENUE DEFICIT BEFORE KNOWN CHANGES	(8,359)	(7,260)	(6,468)	(5,678)
Known / Expected Changes	10,852	10,779	9,167	9,328
Planned use of reserves	(450)	0	1,248	863
REVENUE DEFICIT BEFORE SAVINGS	2,043	3,519	3,947	4,512
Planned Savings	(2,043)	(2,694)	(2,970)	(3,138)
Surplus / (Savings to be identified)	0	(825)	(977)	(1,375)
REVENUE DEFICIT / (SURPLUS) AFTER SAVINGS	0	0	0	0

Option 1 Appendix A(i)

2.31 Based on the planning assumptions set out in this report, further savings of £4.670m are required to be made in the period 2019-20 to 2022-23, in order to achieve a balanced budget over the period of the MTFP.

Option 2 Appendix A(ii)

2.32 Based on the planning assumptions set out in this report, further savings of £1.375m are required to be made in the period 2020-21 to 2022-23, in order to achieve a balanced budget over the period of the MTFP.

2.33 **Appendix I** shows graphically the level of cumulative savings to be achieved for both options, in order to achieve a balance financial position over the financial planning period. For comparative purposes, the financial impact of not increasing council tax over the period of the MTFP has been included in **Appendix I**.

3 CAPITAL INVESTMENT PROGRAMME 2019-20 to 2022-23

- 3.1 The capital programme is a key element of strategic and financial planning. As highlighted over the last few years, due to funding constraints, the impact of capital spending, particularly the investment in short-term assets has a significant impact on the revenue budget.
- 3.2 Due to the continuing pace of modernisation, and ensuring the Constabulary is fit-for-purpose, appropriately equipped and has an appropriate estate footprint, there is an increased investment requirement on the capital programme over the medium-term. This includes significant investment in refreshing the growing ICT / digital estate and investing in digital technologies to drive more efficient ways of working; increasing investment in infrastructure e.g. in networks and servers to deal with the growth in requirements for investigating and storing digital data; and maintaining the investment in enabling programmes such as Body Worn Video and mobile devices.
- 3.3 There are also a number of key developments coming through national programmes. These include required investments in Windows 10 / Office 365; Automatic Number Plate Recognition (ANPR); National Law Enforcement Data Service; Home Office Biometrics; the Emergency Services Network.
- 3.4 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. This means that to continue to fund the replacement programme over the medium-term and beyond, to maximise the efficiency of the investment, and to protect reserve levels, additional revenue budget is required to be dedicated to the funding of short-life assets in order to increase the sustainable revenue funding of the capital programme. This issue is expanded further in the review of adequacy of reserves later in this report (see Section 7) as well as the Capital and Reserves Strategies (see Appendix F and G).
- 3.5 It is worthy of note that developments around hosting services in the “cloud” are being explored within policing and a small number of products are now being brought into Suffolk and Norfolk using cloud solutions. There are strict security conditions regarding storage of sensitive data in the cloud. At the point where services are provided from the “cloud” there will be additional costs incurred. However, there should be accompanying savings as the number of servers required in-force would be reduced. Developments in this area will continue to be evaluated and incorporated into future plans, as appropriate.
- 3.6 **Appendix D** provides a more detailed analysis of the outline capital programme over the medium term, with the table below summarising these plans.

	19-20	20-21	21-22	22-23
	£k	£k	£k	£k
Suffolk only schemes				
Building Schemes	2,785	640	20	0
ICT replacement strategy	590	616	405	346
Vehicles and Equipment	995	748	697	705
	4,370	2,004	1,122	1,051
Share of Joint Programme				
ICT Schemes and Projects	2,194	2,122	1,194	1,031
Grand Total	6,564	4,126	2,316	2,082

- 3.7 The Programme (**Appendix D**) is arranged in 2 tables:-

Table A	Schemes or technical refresh programmes already approved for 2019-20
Table B	Schemes requiring a business case or further report to the PCC(s) for approval.

- 3.8 The programme identifies those schemes which are joint projects with Norfolk. Where applicable, the figures shown relate to the Suffolk share of the overall cost, which is calculated in proportion to the net revenue budget.
- 3.9 Key aspects of the programme are outlined below.

Funding the Capital Programme

- 3.10 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.

	19-20 £k	20-21 £k	21-22 £k	22-23 £k
Capital Receipts	2,200	485	1,245	645
Capital Grant	449	400	400	400
Revenue Contribution	2,007	2,601	651	1,037
Back funding of 2018-19 unfunded short life assets	(1,013)	0	0	0
Capital Financing Reserve	136	0	0	0
Internal / External Borrowing	2,785	640	20	0
Total	6,564	4,126	2,316	2,082

- 3.11 Modest external borrowing will be required over the medium-term, but the precise amount and timing of the borrowing has not been decided upon at this point. This will be reviewed over the coming months and discussed with the PCC. Any such borrowing will comply with the requirements of the Prudential Code and be affordable.
- 3.12 Annually, PCCs receive a capital grant which must be used to support capital expenditure. The Home Office has given provisional figures for the capital grant for 2019-20 as being £0.449m. This is approximately a 50% reduction from the capital grant received of £0.8m in 2015-16.
- 3.13 This reduction maintains significant pressure on revenue and reserve funding of the capital programme.

Minimum Revenue Provision (MRP)

- 3.14 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.
- 3.15 MRP is only used where funding of the asset does not use revenue contributions, capital grants or receipts from asset sales. MRP is charged annually against the Revenue Account reflecting the cost of the asset over its life, with the MTFP reflecting the required provision.
- 3.16 The MRP policy has been reviewed and updated for 2019-20 onwards. The proposal to change the policy is detailed in **Appendix H**.

4 ANNUAL INVESTMENT AND TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2019-20

Investment and Treasury Management Strategy

- 4.1 Government regulations require the PCC to approve the investment and borrowing strategies and borrowing limits for 2019-20 prior to the start of the financial year. This is incorporated within an over-arching Investment and Treasury Management Strategy, which is attached as **Appendix E**.
- 4.2 The Investment and Treasury Management Strategy, which includes a number of Prudential Code and Treasury Management Indicators (**Appendix E**) has been developed in accordance with the latest guidance issued by 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 code, compliance with which helps to ensure 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 ensure that the PCC stays within the constraints of prudent investment and borrowing. They are not designed to be comparative performance indicators. Details of the proposed indicators for 2018-19 are provided in **Appendix E**. 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.

5 SECTION 25 RESPONSIBILITIES

- 5.1 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

- 5.2 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 remain sound.
- 5.3 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.
- 5.4 The comprehensive Service and Financial Planning process has given a significant review of the various savings proposals and programmes. This process has involved Chief Officers, Heads of Department, Finance, Corporate Development and Change and other enabling departments from both Norfolk and Suffolk Constabularies, resulting in greater financial clarity and consistency in financial plans.
- 5.5 In summary, I am satisfied that the financial data contained within this report is robust; the assumptions underpinning the MTFP 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

- 5.6 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 savings plans detailed in **Appendix C**.
- 5.7 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.
- 5.8 Detailed monthly financial reports will continue to be prepared throughout 2018-19 in respect of year-to-date financial performance and year-end projection for 2018-19, considered in detail by the PCC, CC and CFO at the Accountability and Performance Panel, and any corrective action agreed and taken as required.
- 5.9 Monitoring and oversight of the implementation of the savings plans, together with consideration and approval of future business cases for service redesign and savings will continue to be undertaken through the already well established governance arrangements.

Adequacy of Reserves

- 5.10 The projected levels of reserves are detailed in **Appendix G**.

The current policy, as demonstrated in the MTFP, is to maintain revenue general balances close to an operational guideline level of 3.0% of the net annual revenue budget. This is an acceptable and appropriate position to be in as the prolonged period of fiscal tightening continues.

- 5.11 The earmarked reserves have been described and the strategy is to keep these for specific purposes, and at an appropriate level that ensures taxpayer's 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.
- 5.12 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*'.
- 5.13 Having considered the levels of reserves included in the MTFP and making planning assumptions already referred to for the period beyond this MTFP, and acknowledging the Chief Constable's commitment to work with the PCC to maintain a balanced budget over the period of the MTFP without further reliance on reserves (with the exception of the planned use of the Change and Capital Finance Reserves), and taking account of the approach to managing financial risk set out in Section 6 above, my 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.

6 CHIEF CONSTABLE'S COMMENTARY ON THE FINANCIAL POSITION

- 6.1 The provisional 2019-20 settlement of the Main Police Grant includes an increase in funding of 2.1% above the 2018-19 level. In addition, PCC's have been given the freedom to ask for an additional £2 a month in 2019-20, to increase their band D precept by up to £24 in 2019-20, without the need to call a local referendum.
- 6.2 The Constabulary will continue to prioritise dealing with those incidents which cause the highest levels of threat, harm and risk to our communities, and also address key priorities within the PCC's 2017-2021 Police and Crime Plan, whilst continuing to build upon the joint initiatives with

our local public sector partners and collaborative ventures, including the Seven Force Strategic Collaboration Programme.

- 6.3 The Constabulary is committed to delivering the planned savings of £2.043m in 2019-20, rising to £3.138m by the end of the MTFP period.
- 6.4 The MTFP considers, amongst other issues, the financial implications of two alternative options which are to increase the precept by just less than £12 per annum in 2019-20 and just less than 2% for the three remaining years of the MTFP (Option 1), and increase the precept by just less than £24 per annum for 2019-20, and just less than 2% for the three remaining years of the MTFP (Option 2).
- 6.5 A decision to implement **Option 1** would result in the Constabulary having to find further recurring savings of £3.0m in 2019-20, and a further £1m by the end of the MTFP period. This would present significant operational and financial challenges for the Constabulary, and could jeopardise delivery of key objectives within the PCC's Police and Crime Plan 2017-2021.
- 6.6 A decision to implement **Option 2** would provide additional funding of £3.0m more than **Option 1**, and would provide the necessary finances to deliver a balanced budget in 2019-20, -and ensure Suffolk remains a safe county in which to live, work, travel and invest. In particular, it is required to:
- Address community concerns and emerging crime patterns. Most significantly, addressing violent crime, gang violence and drug dealing.
 - Enhance public trust and confidence by increasing overall police visibility. In particular on the county's roads to prevent criminal access to the county and keep road users safe through further investment in ANPR coverage across Suffolk;
 - Recruit an extra 29 police officers and 69 police staff (45 shared with Norfolk). 8 of these officers will be based in Ipswich
 - Further invest in technology to help tackle the changing profile of criminality including ANPR equipment, a new drone and IT to tackle cyber crime.
 - Improve the proactive capability of the Constabulary to combat all criminality but with a focus on combatting drug misuse and youth/gang violence;
 - Enhance our emergency response;
 - Increase the effectiveness of the Safer Neighbourhood Teams;
 - Provide additional police staff investigators to support detectives leading the more serious crime investigations.
 - Enable the Constabulary to address the gaps and forecasts outlined in the 2018 FMS;
 - Improve public engagement and communication, including digital media;
 - Maintain financial viability and protect reserves at an appropriate level over the period of the MTFP.
- 6.7 Monitoring delivery of improvements in performance from the additional policing resources provided through the increased budget will be at each of the quarterly public Accountability and Performance Panel meetings.

7 CONCLUSION AND SUMMARY OF OPTIONS

- 7.1 The MTFP has been prepared following notification of the provisional 2019-20 government grants via the Home Office on 13 December 2018, and in conjunction with a wide range of assumptions summarised in Section 2 of this report.
- 7.2 As a result, the Constabulary remains committed to finding further savings, and drive out efficiencies through organisational change and continuing to modernise the policing model and work with other partner agencies, as well as other police forces.
- 7.3 The two alternative budget options are proposed to the PCC for consideration, the financial consequences of which are contained in **Appendices A(i), A(ii), I and J**, and summarised below:

Option 1

Based on the planning assumptions set out in this report, further savings of £4.670m are required to be made in the period 2019-20 to 2022-23 (in addition to the planned savings of £3.138m), in order to achieve a balanced budget over the period of the MTFP.

Option 2

Based on the planning assumptions set out in this report, 2019-20 achieves a balanced budget position, with savings of £1.375m required to be made in the period 2021-22 and 2022-23 (in addition to the planned savings of £3.138m), in order to achieve a balanced budget over the period of the MTFP.

8 RECOMMENDATIONS

8.1 It is recommended that the PCC:

- (i) Takes account of the overall financial strategy, when considering the 2019-20 budget proposals, and
- (ii) Approves the planned revenue changes summarised in **Appendix B**;
- (iii) Approves the savings plans in **Appendix C**;
- (iv) Approves the proposed capital programme for 2019-20 and the draft capital programme over the medium term as set out at **Appendix D**;
- (v) Approves the Investment and Treasury Management Strategy in **Appendix E**;
- (vi) Approves the Capital Strategy in **Appendix F**;
- (vii) Approves the proposed use and transfer of reserve balances in **Appendix G**;
- (viii) Approves the proposed change to the MRP policy in **Appendix H**;
- (ix) When setting the precept level and council tax requirement, consideration is given to the medium- term financial implications of Options 1 and 2, the assessment of financial risks detailed within the MTFP, and the Chief Constable's commentary on the financial position.

SUFFOLK MEDIUM TERM FINANCIAL PLAN - 4 YEAR OVERVIEW - OPTION 1

Precept increase 6.3% plus no grant reductions

	2019/20	2020/21	2021/22	2022/23	Comments
	£000	£000	£000	£000	
REVENUE FUNDING					
Home Office Grant	-64,018	-64,018	-64,018	-64,018	0% reduction in 19/20, 1% reduction thereafter
Legacy Council Tax Grants	-6,786	-6,786	-6,786	-6,786	
Precept Income	-50,563	-51,763	-53,315	-54,916	6.3% Precept Increase in 2019/20, 2% thereafter, 1% increase in CT base
TOTAL FUNDING	(121,367)	(122,567)	(124,119)	(125,720)	
BASE REVENUE BUDGET INCLUDING INFLATION:					
Constabulary Revenue Budget before savings	121,668	124,199	126,699	129,249	Excludes Capital
PCC Corporate Budget	928	928	928	928	
PCC Commissioning Budget	1,719	1,639	1,639	1,639	
Revenue Funding of Capital, Minimum Revenue Provision and Interest	1,020	1,020	1,020	1,020	
Total Revenue Income inc Specific Grants	-9,330	-9,385	-9,442	-9,499	
NET REVENUE BUDGET BEFORE KNOWN CHANGES AND SAVINGS	116,005	118,401	120,845	123,338	
REVENUE DEFICIT BEFORE KNOWN CHANGES	-5,362	-4,166	-3,274	-2,382	
Known / Expected Changes	10,852	10,779	9,167	9,328	Appendix B(ii)
Planned (use of)/contribution to reserves	-450	0	1,248	863	Appendix B(ii)
REVENUE DEFICIT BEFORE SAVINGS	5,039	6,613	7,141	7,808	
Suffolk Policing Model Savings	-700	-714	-728	-743	Appendix C
Change Programme Savings	-1,343	-1,980	-2,242	-2,395	Appendix C
Total Cumulative Impact of Savings	-2,043	-2,694	-2,970	-3,138	
REVENUE (SURPLUS) / DEFICIT AFTER SAVINGS	2,996	3,919	4,171	4,670	
SURPLUS/(SAVINGS TO BE IDENTIFIED)	-2,996	-3,919	-4,171	-4,670	
REVENUE DEFICIT / (SURPLUS)	0	0	0	0	
ABOVE BASED ON FOLLOWING ASSUMPTIONS					
Police Pay awards	1.58%	2.00%	2.00%	2.00%	Impact in each year is a combination of pay
Staff Pay awards	1.58%	2.00%	2.00%	2.00%	awards in previous and current year
Price Inflation	2.00%	2.00%	2.00%	2.00%	Average figure.
General Grants	2.10%	0.00%	0.00%	0.00%	As per Provisional Settlement
Freeze Grants	0.00%	0.00%	0.00%	0.00%	
Precept - Tax base increase	1.20%	1.00%	1.00%	1.00%	
Precept - Bill increase	6.339%	1.972%	1.978%	1.983%	

SUFFOLK MEDIUM TERM FINANCIAL PLAN - 4 YEAR OVERVIEW - OPTION 2						
Precept increase 12.7% plus no grant reductions						
	2019/20	2020/21	2021/22	2022/23	Comments	
	£000	£000	£000	£000		
REVENUE FUNDING						
Home Office Grant	-64,018	-64,018	-64,018	-64,018	2.1% increase in 19/20, cash flat thereafter	
Legacy Council Tax Grants	-6,786	-6,786	-6,786	-6,786		
Precept Income	-53,559	-54,857	-56,509	-58,212	12.7% Precept Increase in 2019/20, 2% thereafter, 1% increase in CT base	
TOTAL FUNDING	(124,363)	(125,661)	(127,313)	(129,015)		
BASE REVENUE BUDGET INCLUDING INFLATION:						
Constabulary Revenue Budget before savings	121,668	124,199	126,699	129,249	Excludes Capital	
PCC Corporate Budget	928	928	928	928		
PCC Commissioning Budget	1,719	1,639	1,639	1,639		
Revenue Funding of Capital, Minimum Revenue Provision and Interest	1,020	1,020	1,020	1,020		
Total Revenue Income inc Specific Grants	-9,330	-9,385	-9,442	-9,499		
NET REVENUE BUDGET BEFORE KNOWN CHANGES AND SAVINGS	116,005	118,401	120,845	123,338		
REVENUE DEFICIT BEFORE KNOWN CHANGES	-8,359	-7,260	-6,468	-5,678		
Known / Expected Changes						
Planned (use of)/contribution to reserves	10,852	10,779	9,167	9,328	Appendix B(ii)	
REVENUE DEFICIT BEFORE SAVINGS	-450	0	1,248	863	Appendix B(ii)	
Suffolk Policing Model Savings	-700	-714	-728	-743	Appendix C	
Change Programme Savings	-1,343	-1,980	-2,242	-2,395	Appendix C	
Total Cumulative Impact of Savings	-2,043	-2,694	-2,970	-3,138		
REVENUE (SURPLUS) / DEFICIT AFTER SAVINGS	0	825	977	1,375		
SURPLUS/(SAVINGS TO BE IDENTIFIED)	0	-825	-977	-1,375		
REVENUE DEFICIT / (SURPLUS)	0	0	0	0		
ABOVE BASED ON FOLLOWING ASSUMPTIONS						
Police Pay awards	1.58%	2.00%	2.00%	2.00%	Impact in each year is a combination of pay	
Staff Pay awards	1.58%	2.00%	2.00%	2.00%) awards in previous and current year	
Price Inflation	2.00%	2.00%	2.00%	2.00%	Average figure.	
General Grants	2.10%	0.00%	0.00%	0.00%	As per Provisional Settlement	
Freeze Grants	0.00%	0.00%	0.00%	0.00%		
Precept - Tax base increase	1.20%	1.00%	1.00%	1.00%		
Precept - Bill increase	6.339%	1.972%	1.978%	1.983%		

PLANNED REVENUE CHANGES - SUFFOLK - 2019/2023				
	Proposed	Forecast	Forecast	Forecast
	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000
STATUTORY CHANGES				
Rent and Housing Allowance Reductions	(150)	(300)	(450)	(520)
Variation in Bank Holiday Numbers (7 in 2018/19 then 8, 9, 11, 9)	100	200	400	200
Police Officer Pensions	2,800	2,800	2,800	2,800
Local Government Pension Scheme increase	60	60	60	60
Firearms Licensing Income		(86)	(82)	(56)
TOTAL STATUTORY CHANGES	2,810	2,674	2,728	2,484
INVESTMENT				
Baseline proactive capability introduced in 2018/19	800	800	800	800
Enhance ANPR teams	750	1,000	1,000	1,000
Equipment for ANPR teams	600			
Support Investigators to support Detectives	365	730	730	730
Additional PCs into Ipswich Safer Neighbourhood Teams	200	400	400	400
Digital Mobile Workflow solution	172			
Digital Asset Management System / Digital Evidence Transfer System	258			
Digital Forensics / High Tech Crime data storage and infrastructure	240			
Challenge Panel Process Review - Resources	610	610	610	610
Temporary Pay growth	376			
TOTAL INVESTMENT	4,371	3,540	3,540	3,540
SERVICE DEVELOPMENTS				
Reduction in Investment Interest				
Motor Insurance	400	400	400	400
FME contract	176	176	176	176
Forensics Contract	108	108	108	108
Contractual risk re Airwave		215	215	215
Civil Parking Enforcement	190			
7 Force Collaboration Contribution	124			
Police Education Qualification Framework (PEQF) - mobilisation costs		69		
PEQF - DHEP training costs		110	230	230
PEQF - L&D Resource		267	458	458
Digital Mobile Workflow solution		129	129	129
Digital Asset Management System / Digital Evidence Transfer System		181	181	181
National Enabler Programme (Office 365) Business Change	86			
Temporary Pay growth	304			
Challenge Panel Process Review - Non Pay	792	417	417	417
Cost of Change	200			
TOTAL SERVICE DEVELOPMENTS	2,380	2,071	2,313	2,313
CAPITAL FINANCING				
Minimum Revenue Provision	7	34	76	97
Revenue Funding of Capital	1,039	2,304	1,603	1,603
Capital Programme Funding - Reserve	136		(1,248)	(863)
Interest	109	156	155	153
TOTAL CAPITAL FINANCING	1,291	2,494	586	990
Total Changes Before Reserve Movement Adjustments	10,852	10,779	9,167	9,328
CONTRIBUTION TO RESERVES				
Capital Financing Reserve			1,248	863
Use of Reserves				
7 Force Collaboration Contribution	(124)			
Capital Funding	(136)			
Civil Parking Enforcement	(190)			
Net Reserve Movements	-450	0	1,248	863
Total	10,402	10,779	10,415	10,190

SAVINGS PLAN - SUFFOLK - 2019/2023						
	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23		
	£000	£000	£000	£000		
Single Force:						
Suffolk Policing Model	700	714	728	743		
Single Force Savings Savings:	700	714	728	743		
Change and Efficiency Savings:						
As per challenge panels:						
Additional impact of 18/19 OBB savings in 19/20	480	490	499	509		
Pay (including inflation)	510	631	644	657		
Non-Pay	315	315	315	315		
Telematics	38	94	94	94		
7 Force Procurement Pipeline		100	200	300		
Future savings requiring further scoping		350	490	520		
Total Change and Efficiency Savings	1,343	1,980	2,242	2,395		
PERMANENT SAVINGS AGAINST 18/19 BASE:	2,043	2,694	2,970	3,138		

CAPITAL - SUFFOLK- 2019/20 - 2022/23					
PROJECT	2019-20	2020-21	2021-22	2022-23	4 Year total
Estates Downsizing - Stowmarket	1,280,000	50,000	0	0	1,330,000
Estates Downsizing - Mildenhall Hub	380,000	330,000	20,000	0	730,000
PHQ Site					
Ipswich NE SNT	45,000				
Estates Downsizing - Sudbury - Purchase site - works post 2021.	50,000	250,000	0	0	300,000
Halesworth Server Room & Car Park	220,000	10,000	0	0	230,000
Halesworth - Security Works - Provision of car park barriers, CCTV & part fencing.	10,000	0	0	0	10,000
Ipswich Town Centre Police Station - Museum Street to Princes Street Fire Station - Note capital receipt from sale of existing Museum Street.	800,000	0	0	0	800,000
Total Estates - Suffolk Only	2,785,000	640,000	20,000	0	3,445,000
ICT Replacements - Desktop Services	423,000	448,800	405,000	0	1,276,800
ICT Replacements - Monitors	149,600	0	0	0	149,600
Thin Client Replacement	17,000	17,000	0	0	34,000
Satnav upgrade	0	150,000	0	0	150,000
ESN (Emergency Services Network)	0	0	0	346,000	346,000
Total ICT - Suffolk Only	589,600	615,800	405,000	346,000	1,956,400
Vehicle Replacements	995,000	748,000	697,000	705,000	3,145,000
Total Vehicle Replacements - Suffolk Only	995,000	748,000	697,000	705,000	3,145,000
Total Suffolk Only	4,369,600	2,003,800	1,122,000	1,051,000	8,546,400
Suffolk Share of Replacement Schemes	514,854	543,726	707,741	733,903	2,500,224
Suffolk Capital Programme	4,884,454	2,547,526	1,829,741	1,784,903	11,046,624
Suffolk Share of Joint Projects	1,678,961	1,578,036	487,126	297,560	4,041,682
Total Suffolk Capital Programme	6,563,415	4,125,561	2,316,867	2,082,463	15,088,306

PROJECT	2019-20	2020-21	2021-22	2022-23	4 Year total
Joint ICT Replacement Schemes (Table A):					
ICT Tech Refresh:					
Joint ICT Replacements - Servers	453,000	604,000	692,000	254,000	2,003,000
ICT Replacements - Voice Data Network	559,335	475,479	818,910	367,750	2,221,474
ICT Tech refresh total	1,012,335	1,079,479	1,510,910	621,750	4,224,474
Mobile Telephony:					
Mobile Telephony - Recruitment Support	50,000	50,000			100,000
Mobile Device Replacement Programme	50,500	50,500	50,500	50,500	202,000
Total Mobile Telephony	100,500	100,500	50,500	50,500	302,000
Body Worn Video:					
BWV Replacement	34,500	34,500	34,500	34,500	138,000
BWV Device Refresh	50,000	50,000	50,000	1,000,000	1,150,000
Total Body Worn Video	84,500	84,500	84,500	1,034,500	1,288,000
ICT Replacement Schemes	1,197,335	1,264,479	1,645,910	1,706,750	5,814,474
Joint Projects Subject to Business Case (Table B):					
Video Conferencing	150,000				150,000
Airbox/Mosaic - 3 yr capital programme - 7F requirement	38,440	15,450	15,450	0	69,340
HTCU:					
Joint HTCU growth	280,000	280,000	280,000	280,000	1,120,000
Joint HTCU refresh			280,000	280,000	560,000
Halesworth DFU ICT Infrastructure	195,000				195,000
High Tech Crime Unit - Annual Replacement Programme	0	132,000	132,000	132,000	396,000
XRY Kiosks - PSN Compliance	85,000				85,000
XRY Phase 2 (DFU restructure)		50,000			50,000
Total HTCU	560,000	462,000	692,000	692,000	2,406,000
ANPR Cameras	500,000	0	0	0	500,000
Digital Portfolio					
DAMS / DETS	600,000	0	0	0	600,000
Digital Public Contact	200,000	100,000	0	0	300,000
SOH (part of digital public contact programme)	0	139,000	0	0	139,000
Digital Portfolio Initiatives (Mobile Workflow)	600,000	200,000			800,000
Total Digital Portfolio	1,400,000	439,000	0	0	1,839,000

Protective Services:					
Radio Frequency Capacity	0	237,000	0	0	237,000
Taser Upgrade - X2s	342,000	286,400	425,400	0	1,053,800
Glock Handgun Upgrade	115,600	0	0	0	115,600
SCIT Collision Scene Scanners	0	30,000	0	0	30,000
Total Protective Services:	457,600	553,400	425,400	0	1,436,400
Other Projects:					
Genie Clearcore - Phase 3	0	100,000			100,000
Project Server	20,000				20,000
DMS Upgrade	100,000				100,000
ERP Athena Interface	40,000				40,000
Learning Management System	80,000				80,000
Skills Module ERP	100,000	100,000			200,000
ERP		2,000,000			2,000,000
Slippage from 2018/19	458,521				458,521
Total Other Projects	798,521	2,200,000	0	0	2,998,521
Total Joint Capital Programme	5,101,896	4,934,329	2,778,760	2,398,750	15,213,735
Joint Capital Projects - Norfolk	2,908,083	2,812,568	1,583,893	1,357,288	8,671,832
Joint Capital Projects - Suffolk	2,193,815	2,121,761	1,194,867	1,041,463	6,541,903
	5,101,896	4,934,329	2,778,760	2,398,750	15,213,735

CAPITAL FINANCING				
Source	2019-20	2020-21	2021-22	2022-23
Applied				
Capital Grant	448,843	400,000	400,000	400,000
Total Capital Receipts	2,200,000	485,000	1,245,000	645,000
Revenue Funding - MTFP	2,006,572	2,600,561	1,900,000	1,900,000
Back funding of 2018-19 unfunded short life assets	(1,013,428)	0	0	0
Capital Financing Reserve	136,428	0	(1,248,133)	(862,538)
Internal Borrowing (MRP) Long Term Assets	2,785,000	640,000	20,000	0
Total Capital Financing	6,563,415	4,125,561	2,316,867	2,082,463
TOTAL	0	0	0	0

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

1.1 Introduction

Background

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.

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.

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.

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."

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

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

Reporting requirements

1.2 Capital Strategy

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

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

- the implications for future financial sustainability

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.

1.3 Treasury Management reporting

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);
 - a minimum revenue provision (MRP) policy, (how unfunded capital expenditure is charged to revenue over time);
 - 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.

Treasury Management Strategy for 2019/20

The strategy for 2019/20 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

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

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.

Treasury management consultants

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

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 regards to all available information, including, but not solely, our treasury advisers.

It also recognises 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.

2. The Treasury Management Function

- 2.1 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.”

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.

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.

- 2.2 The PCC is required to operate a balanced budget, which broadly means that cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties, providing adequate liquidity before considering investment return.
- 2.3 A further function of the treasury management service is to provide for the borrowing requirement of the PCC, essentially the longer term cash flow planning, typically 30 years plus, to ensure the PCC can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using internal cash balances on a temporary basis. Debt previously borrowed may be restructured to meet PCC risk or cost objectives.

- 2.4 The PCC has delegated responsibility for treasury management decisions taken within the approved strategy to the PCC CFO. Day to day execution and administration of investment and borrowing decisions is undertaken by Specialist Accountants based in the Joint Finance Department for Suffolk and Norfolk Constabularies.
- 2.5 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).
- 2.6 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.
- 2.7 Performance will continue to be monitored and reported to the PCC as part of the budget monitoring report.

3. Link Asset Services Economic Forecast

ECONOMIC BACKGROUND

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

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

KEY RISKS - central bank monetary policy measures

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

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period has already started in the US, and more recently in

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

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

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

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

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

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

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

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

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

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

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

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

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

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

INTEREST RATE FORECASTS

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

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

The balance of risks to the UK

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

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.

- **Bank of England monetary policy** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**, possibly in **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. At the time of writing, the EU has rejected the proposed Italian budget and has demanded cuts in government spending which the Italian government has refused. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the actions of the Italian government and consequently, Italian bond yields have risen sharply – at a time when the government faces having to refinance large amounts of debt maturing in 2019.
- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
- **German minority government**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.
- **Other minority eurozone governments**. Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with.
- **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy**, this year, has also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
- Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much improved yield. In October 2018, we have seen a sharp fall in equity markets but this has been limited, as yet. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks**, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

- **Brexit** – if both sides were to agree a compromise that removed all threats of economic and political disruption.

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

Brexit timetable and process at 13.12.18

- March 2017: UK government notified the European PCC of its intention to leave under the Treaty on European Union Article 50 on 29 March 2019.
- 25.11.18 EU27 leaders endorsed the withdrawal agreement
- 11.12.18 vote in UK Parliament on the agreement (postponed)
- 21.12.18 – 6.1.19 UK Parliamentary recess
- Before 21.1.19 vote in UK Parliament on the agreement
- 8.1.19 – 29.3.19 second vote (?) in UK parliament if first vote rejects the deal
- 21.1.19 vote in Parliament on a 'no deal' scenario; if approved...
- By 29.3.19 then ratification by EU Parliament requires a simple majority
- By 29.3.19 if UK and EU parliaments agree the deal, EU PCC needs to approve the deal; 20 countries representing 65% of the EU population must agree
- 29.3.19 UK leaves the EU (or asks the EU for agreement to an extension of the Article 50 period if UK Parliament rejects the deal and no deal departure?)
- 29.3.19: if an agreement is reached with the EU on the terms of Brexit, then this will be followed by a proposed **transitional period ending around December 2020**.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy may leave the single market and tariff free trade at different times during the transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.

4. Investment Strategy 2019/20

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

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

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

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

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

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

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

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

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

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

5. Investment Strategy 2019/20 - Counterparty Criteria

- 5.1 The PCC works closely with its external treasury advisors to determine the criteria for high quality institutions.
- 5.2 The criteria for providing a pool of high quality investment counterparties for inclusion on the PCC's 'Approved Authorised Counterparty List' is provided below

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

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

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

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

- **Part Nationalised UK Banks** – Royal Bank of Scotland Group (including Nat West). These banks are included while they continue to be part nationalised or they meet the minimum rating criteria for UK Banks above.
- **The PCC's Corporate Banker** – If the credit ratings of the PCC's corporate banker (currently Lloyds Bank plc) fall below the minimum criteria for UK Banks above, then cash balances held with that bank will be for account operation purposes only and balances will be minimised in terms of monetary size and time.
- **Building Societies** – The PCC will use Building Societies which meet the ratings for UK Banks outlined above.
- **Money Market Funds (MMFs)** – which are rated AAA by at least one of the three major rating agencies. MMF's are 'pooled funds' investing in high-quality, high-liquidity, short-term securities such as treasury bills, repurchase agreements and certificate of deposit. Funds offer a high degree of counterparty diversification that include both UK and Overseas Banks.
- **UK Government** – including the Debt Management Account Deposit Facility & Sterling Treasury Bills. Sterling Treasury Bills are short-term (up to six months) 'paper' issued by the UK Government. In the same way that the Government issues Gilts to meet long

term funding requirements, Treasury Bills are used by Government to meet short term revenue obligations. They have the security of being issued by the UK Government.

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

- 5.3 All cash invested by the PCC in 2019/20 will be either Sterling deposits (including certificates of deposit) or Sterling Treasury Bills invested with banks and other institutions in accordance with the Approved Authorised Counterparty List.
- 5.4 The Code of Practice requires local authorities and PCCs to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for use, additional market information will be used to inform investment decisions. This additional market information includes, for example, Credit Default Swap rates and equity prices in order to compare the relative security of counterparties.
- 5.5 The current maximum lending limit of £10m for any counterparty will be maintained in 2019/20 to reflect the level of cash balances and to avoid large deposits with the DMO.
- 5.6 In addition to individual institutional lending limits, “Group Limits” will be used whereby the collective investment exposure of individual banks within the same banking group is restricted to a group lending limit of £10m.
- 5.7 The Strategy permits deposits beyond 365 days (up to a maximum of 2 years) but only with UK banks which meet the credit ratings at paragraph 5.2. Deposits may also be placed with UK Part Nationalised Banks and Local Authorities for periods of up to 2 years.
- 5.8 A reasonable amount will be held on an instant access basis in order for the PCC to meet any unexpected needs. Instant access accounts are also preferable during periods of credit risk uncertainty in the markets, allowing the PCC to immediately withdraw funds should any concern arise over a particular institution.

6. Investment Strategy 2019/20 – Specified and Non-Specified Investments

- 6.1 As determined by CLG’s Investment Guidance, Specified Investments offer “high security and high liquidity”. They are Sterling denominated and have a maturity of less than one year. Institutions of “high” credit quality are deemed to be Specified Investments. From the pool of high quality investment counterparties identified in Section 5, the following are deemed to be Specified Investments where the period of deposit is 365 days or less:
- Banks: UK and Non-UK;
 - Part Nationalised UK Banks;
 - The PCC’s Corporate Banker (Lloyds Bank plc)
 - Building Societies (which meet the minimum ratings criteria for Banks);
 - Money Market Funds;
 - UK Government;
 - Local Authorities, Parish PCCs etc.

- 6.2 Non-Specified Investments are those investments that do not meet the criteria of Specified Investments. From the pool of counterparties identified in Section 5, they include:
- Any investment greater than 365 days.
- 6.3 The categorisation of 'Non-Specified' does not in any way detract from the credit quality of these institutions, but is merely a requirement of the Government's guidance.
- 6.4 The PCC's proposed Strategy for 2019/20 therefore includes both Specified and Non-Specified Investment institutions.

7. Borrowing Strategy 2019/20

- 7.1 Capital expenditure can be funded immediately by applying capital receipts, capital grants or revenue contributions. Capital expenditure in excess of available capital resources or revenue contributions will add to the PCC's borrowing requirement. The PCC's need to borrow is measured by the Capital Financial Requirement, which simply represents the total outstanding capital expenditure, which has not yet been funded from either capital or revenue resources.
- 7.2 For the PCC, borrowing principally relates to long term loans (i.e. loans in excess of 365 days). The borrowing strategy includes decisions on the timing of when further monies should be borrowed.
- 7.3 The main source of long term loans is the Public Works Loan Board (PWLB), which is part of the UK Debt Management Office (DMO). The maximum period for which loans can be advanced by the PWLB is 50 years.
- 7.4 External borrowing currently stands at £8.2m (excluding PFI). At 31 March 2018 there was a £11.8m Capital Financing Requirement (CFR) relating to unfunded capital expenditure which had been financed from internal resources. The CFR is estimated to be £13.6m at 31 March 2019, £15.1m at 31 March 2020 and £15.4 at 31 March 2021. Additional long term borrowing is estimated at £2.6m for 2018/19, £2.0m for 2019/20 and £0.5m for 2020/21. The borrowing requirement does not include the funding requirement in respect of assets financed through PFI.
- 7.5 The challenging and uncertain economic outlook outlined by Link Asset Services in Section 3, together with managing the cost of "carrying debt" requires a flexible approach to borrowing. The PCC, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks identified in Link Asset Services economic overview (Section 3).
- 7.6 The level of outstanding debt and composition of debt, in terms of individual loans, is kept under review. The PWLB provides a facility to allow the restructure of debt, including premature repayment of loans, and encourages local authorities and PCCs to do so when circumstances permit. This can result in net savings in overall interest charges. The PCC CFO and Link Asset Services will monitor prevailing rates for any opportunities during the year. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt

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

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

8. Treasury Management Prudential Indicators

8.1 In addition to the key Treasury Indicators included in the Prudential Code and reported separately, there are two treasury management indicators. The purpose of the indicators is to restrict the activity of the treasury function to within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these indicators are too restrictive, they will impair the opportunities to reduce costs/improve performance. The Indicators are:

- **Maturity Structures of Borrowing** – These gross limits are set to reduce the PCC’s exposure to large fixed rate sums falling due for refinancing and require upper and lower limits. It is recommended that the PCC sets the following limits for the maturity structures of its borrowing at 31.3.19:

	Actual*	Lower Limit	Upper Limit
Under 12 months	4.2%	0%	15%
12 months and within 24 months	4.4%	0%	15%
24 months and within 5 years	14.4%	0%	45%
5 years and within 10 years	28.7%	0%	75%
10 years and above	48.3%	0%	100%

* Actual is based on existing balances at 31.12.18

- **Upper Limits to the Total of Principal Funds Invested for Greater than 365 Days** – This limit is set with regard to the PCC’s liquidity requirements. It is estimated that in 2019/20, the maximum level of PCC funds invested for periods greater than 365 days will be no more than £3.5m.

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

Background

9.1 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 to applied from 2018/19

9.2 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.

9.3 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)

9.4 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.

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

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

10. The Indicators

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

	2019/20	2020/21	2021/22
	£m	£m	£m
Capital Expenditure Forecast	6.563	4.126	2.317

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.

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

Ratio of Capital Financing Costs to Net Revenue Budget

2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
2.53%	2.53%	2.50%

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

Capital Financing Requirement			
31/03/19 Estimate	31/03/20 Estimate	31/03/21 Estimate	31/03/22 Estimate
£36.750m	£37.808m	£37.693m	£36.908m

- 10.4 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.

- 10.5 The Code defines the **authorised limit for external debt** as the sum of external borrowing and any other financing long-term liabilities e.g. finance leases. It is recommended that the PCC approve the 2019/2020 and future years limits.

For 2019/20 this will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

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

Authorised Limit for External Debt			
	2019/20	2020/21	2021/22
	£m	£m	£m
PWLB borrowing	12.128	12.237	11.827
Other long term liabilities (PIC PFI)	22.721	22.302	21.846
Headroom	4.849	5.039	5.080
Total	39.698	39.578	38.753

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

- 10.6 The Code also requires the PCC to approve an **operational boundary limit for external debt** for the same time period. The proposed operational boundary for external debt is the same calculation as the external debt limit without the additional headroom. The

operational boundary represents a key management tool for in year monitoring.

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

Operational Boundary Limit for External Debt			
	2019/20	2020/21	2021/22
	£m	£m	£m
PWLB borrowing	12.128	12.237	11.827
Other long term liabilities (PIC PFI)	22.721	22.302	21.846
Total	34.849	34.539	33.673

6. Capital Funding

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.

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.

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

6.1 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.

6.2 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.

6.3 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 reserve is specifically used to ring fence funding for future capital expenditure.

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

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.

6.4 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.

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.

6.5 Minimum Revenue Provision (MRP)

Accumulated capital expenditure not funded using methods 5.1 to 5.5 above 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 on an annuity basis.

MRP is charged against the Police Fund annually and effectively reduces the CFR.

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

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. Suffolk have used this method to finance six Police Investigation Centres (PICs) across Suffolk and Norfolk.

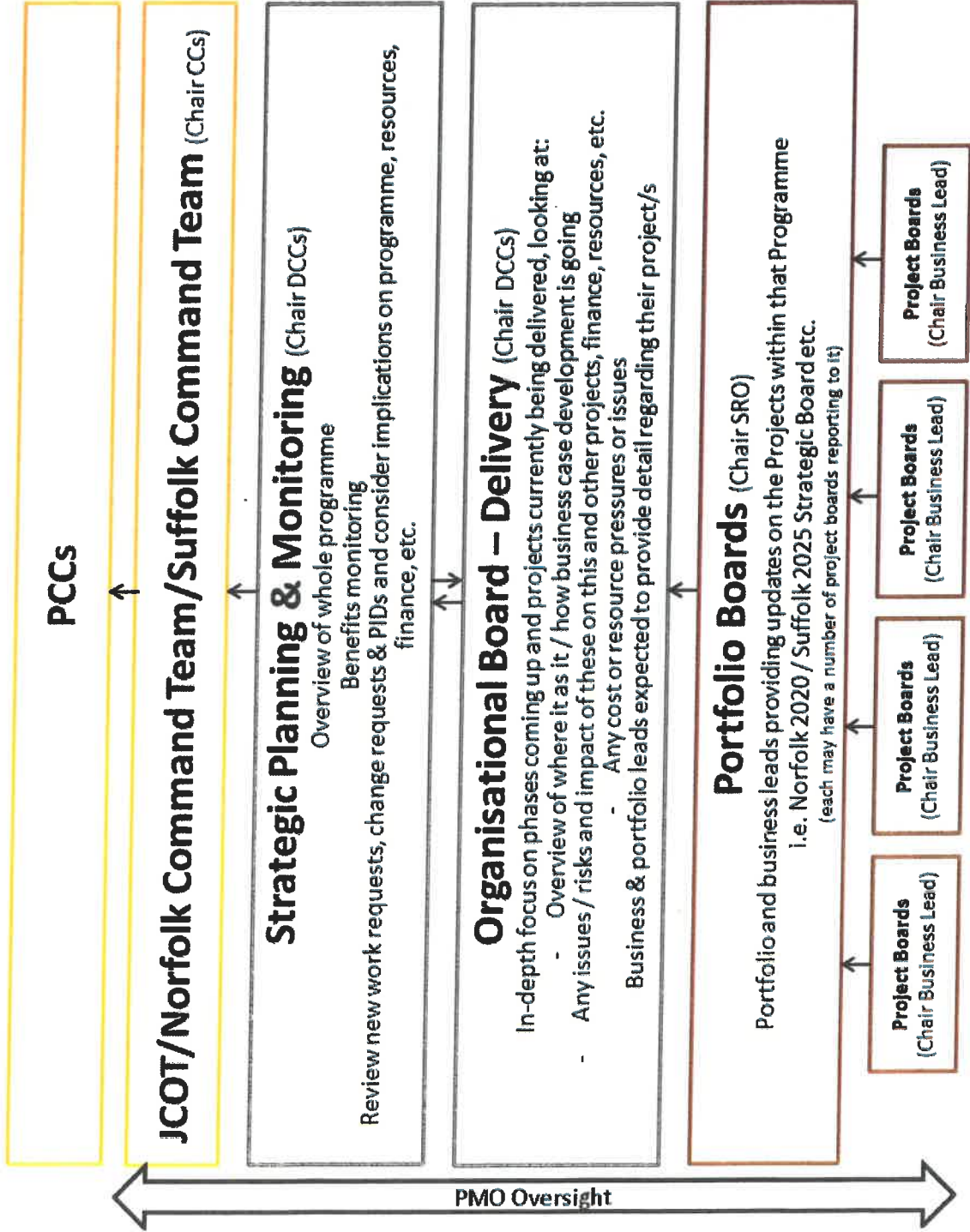
Nationally, new PFI arrangements have significantly reduced in number and the Government have now withdrawn support for future schemes.

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 some 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.

8.1 Governance model Appendix A



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

1. It is important to consider the PCC's reserves at the same time as the budget to ensure that resources are available to fund spending at a level commensurate with the needs of the PCC and Constabulary. Forecasting cash flows and balances over the budget period ensures efficient and effective financial management and avoids unnecessary finance charges. Reserves are held for either general purposes (such as working capital or 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.
2. The Strategy requires an annual review of reserves to be undertaken and reported to the PCC. This reflects guidance on reserves issued by CIPFA. The most recent guidance requires an annual review of reserves to be considered by the PCC as part of good practice in the management of financial reserves and balances.
3. The minimum prudent level of reserves is a matter of judgement rather than prescription. Neither CIPFA nor statute sets a minimum level of reserves. In determining the level and type of reserves, the PCC has to take into account relevant local circumstances and the advice of the Chief Constable and CFO in making a reasoned judgement on the appropriate level of its reserves.
4. In order to assess the adequacy of reserves when setting the budget the PCC, on the advice of the CFO, should take account of the strategic, operational and financial risks facing the organisation. This assessment of risk should include external risks, as well as internal risks, for example the ability to deliver planned efficiency savings.
5. The ultimate use of reserves will be dependent upon both the timing and level of costs and saving over the period of the Medium-Term Financial Plan (MTFP).
6. This strategy should be read in conjunction with the MTFP.

Assessment of adequacy

7. 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, risk of failure to deliver the savings programme and sensitivity analysis of changes in assumptions included in the plan.
8. Within the MTFP appropriate estimates are made on a number of key items including provision of 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 included in the plan. These estimates and assumptions are taking into account the general financial climate to which the authority is subject.
9. Suffolk 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.
10. Since 2010 the Constabulary has a proven track record of delivering efficiency savings year on year that will total £29.8m by the end of 2018-19.

11. In this MTFP robust detailed savings plans are in place for 2019-20 and 2020-21, with additional savings contained in a high level scoped programme for 2021-22 and 2022-23. These are outlined in the MTFP. The Chief Constable and PCC are committed to continuing to deliver efficiency and productivity gains in each year of the plan.
12. The General Reserve is being maintained at £3.5m (approx. 3% of net revenue budget) throughout the life of the MTFP. This is a prudent and adequate amount to hold as a General Reserve. This is shown in **Appendix 1**.

Earmarked reserves

13. These are reserves that are held for a specific purpose, whereby funds are set aside for future use when that specific purpose arises.
14. The level of reserves and predicted movement for these reserves is set out in **Appendix 1**. All reserve levels are reviewed annually.
15. The purpose and strategy for each reserve is set out below.
16. Due to significant operational pressures in 2017/18 the **Budget Reserve** has been fully used up. Should any in-year underspends occur over the life of the medium-term plan they will be added to this reserve and held as a contingency against the increasing number of future demand led pressures and would also act as a contingency to increases of assessed insurance liabilities in excess of insurance budgets and provisions.
17. The **Change Reserve** is used to fund the cost of change and / or to pump prime invest-to-save activities. The reserve is to be used specifically to fund redundancies resulting from the ambitious Change Programme that is designed to increase the efficiency of the force, to fund temporary posts until the implementation of certain business cases, and to contribute to the ongoing 7 Force collaboration team that is joining services together at a 7 Force level and accelerating the convergence agenda of those 7 Forces. This reserve is predicted to be effectively fully used by the end of the plan.
18. The **Capital Financing Reserve** is used to fund the short-life asset element of the Capital Programme when the amount required for investing / refreshing in modernising technologies exceeds budget available for this purpose. The capital programme is shown in Appendix D of the MTFP and the short-life asset funding required includes schemes such as the ICT refresh programme for servers, desktops and the network; the funding for replacing the Video Conferencing technology essential for the smooth running of the collaboration between Suffolk and Norfolk; significant investment in digital forensics; significant investment in digital asset management; further investment in tasers; and the replacement of vehicles . The strategy is to "top-up" this reserve by £2.1m in the last 2 years of the plan to fund the requirement for continued investment beyond the period of this MTFP.
19. The **Specified Purpose Fund** relates to funds allocated for specific purposes including partnership funding and is predicted to be fully used by the end of 2018-19.
20. The **Crime and Disorder Reduction Reserve** is made up from underspends against the PCCs Commissioning budget which have been earmarked to fund future commissioning initiatives.

21. The **PCC reserve** is made up from previous underspends against the budget for the Office of the Police and Crime Commissioner. The plan is to hold this at £0.380m over the life of the plan, but review this on an annual basis. This reserve is in essence a general contingent reserve.
22. The **Safety Camera Reserve** is made up from previous underspends against the approved annual budget. The use is reviewed and agreed at the Driver Offender Re-training Governance Board (DORG).

Compliance with Home Office guidance on reserves

23. On 31st March 2018 the Minister for Policing and the Fire Service published new 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 Appendix 2 which analyses the forecast balance on 31st March 2019 over the above headings.

Conclusion

24. The current policy, as demonstrated in the MTFP, is to maintain revenue general balances close to an operational guideline level of 3.0% of the net annual revenue budget. This is an acceptable and appropriate position to be in as the prolonged period of fiscal tightening continues.
25. The earmarked reserves have been described and the strategy is to keep these for specific purposes, and at an appropriate level that ensures taxpayer's money is being used as efficiently as possible. The strategy is to contribute to the Capital Financing Reserve to keep this at an appropriate level through the plan.
26. Having considered the levels of reserves included in the MTFP, and acknowledging the Chief Constable's commitment to work with the PCC to maintain a balanced budget over the period of the MTFP without further reliance on reserves (with the exception of the planned use of the Change and Capital Finance Reserves), and taking account of the approach to managing financial risk described in the report, my 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 MOVEMENT IN GENERAL AND EARMARKED RESERVES 2018/19 to 2022/23

APPENDIX 1

PROJECTION OF RESERVES LEVELS:

	General £000	Budget £000	Change £000	Capital Financing and Efficiency Investment Reserve £000	Specified Purposes Fund £000	Crime and Disorder Reduction Reserve £000	PCC Reserve £000	Total £000	Safecam Reserve £000
31/03/2018 Actual	3,500	0	1,388	1,089	372	219	380	6,948	906
Proposed Changes 2018/19:									
Contribution to Reserves			429					429	
Drug wipes and Forensic costs								0	-202
Temporary posts			-337					-337	
Road Casualty Reduction Team								0	
Contribution to Crime and Disorder Reduction						-50		-50	-209
Cost of Change			-1,000					-1,000	
Use of Specified Purposes Fund					-372			-372	
Use of Capital Financing Reserve				-368				-368	
7 Force Collaboration Contribution			-124					-124	
31/03/2019 Forecast	3,500	0	356	731	0	169	380	5,136	495
Proposed Changes 2019/20:									
Contribution to Reserves								0	
Civil Parking Enforcement			-190					-190	
Use of capital financing reserve				-136				-136	
7 Force Collaboration Contribution			-124					-124	
31/03/2020 Forecast	3,500	0	42	595	0	169	380	4,686	495
Proposed Changes 2020/21:									
Contribution to Reserves								0	
Use of capital financing reserve								0	
31/03/2021 Forecast	3,500	0	42	595	0	169	380	4,686	495
Proposed Changes 2021/22:									
Contribution to Reserves								0	
Use of capital financing reserve				1,248				1,248	
31/03/2022 Forecast	3,500	0	42	1,843	0	169	380	5,934	495
Proposed Changes 2022/23:									
Contribution to Reserves								863	
Transfer from Budget Reserve				863				0	
Use of capital financing reserve								0	
31/03/2023 Forecast	3,500	0	42	2,706	0	169	380	6,797	495

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

APPENDIX 2

Analysis of forecast reserves as at 31.03.2019 - SUFFOLK					
	Forecast Balance as at 31.3.19 £m	Funding for projects & programmes over the period of the current MTFP £m	New contributions during the life of the MTFP	Funding for projects & programmes beyond 2022/23 £m	General Contingency £m
General Reserve	3.500	0.000		0.000	3.500
Earmarked Reserves:					
Budget Reserve	0.000	0.000		0.000	
Change Reserve	0.356	0.314		0.042	
Capital Financing Reserve	0.731	0.136	-2.111	2.706	
Specified Purposes Fund	0.000	0.000		0.000	
Crime & Disorder Reduction Reserve	0.169	0.000		0.169	
PCC Reserve	0.380	0.000			0.380
Total Earmarked Reserves	1.636	0.450	-2.111	2.917	0.380
Safety Camera Reserve	0.495	-0.190	0.000	0.685	
Total Reserves	5.631	0.260	-2.111	3.602	3.880

PROPOSAL TO CHANGE MRP POLICY AND MRP STATEMENT FOR 2019/20**1. Introduction**

- 1.1 The PCC is required to make a charge against the revenue budget each year in respect of capital expenditure financed by borrowing or credit arrangement. The annual charge is set aside for the eventual repayment of the loan and is known as the Minimum Revenue Provision (MRP). This is separate from any annual interest charges that are incurred on borrowing.
- 1.2 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 amend the way in which MRP can be calculated so that each authority must consider what is "prudent". The regulations are backed up by statutory guidance which gives advice on what might be considered prudent.

2. Options for Making Prudent Provision

- 2.2 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.
- 2.3 **Option 1 - Regulatory Method**
Authorities may continue to use the formulae put in place by the previous regulations.
- 2.4 **Option 2 - Capital Financing Requirement Method (CFR)**
Under this option, MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year.
- 2.5 **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) 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.
- 2.6 **Option 4 - Depreciation**
MRP is deemed to be equal to the provision required in accordance with depreciation 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.
- 2.7 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.
- 2.8 Options 1 and 2 are to be used for capital expenditure incurred pre April 2008. Options 3 and 4 are to be used for Capital expenditure incurred post April 2008.

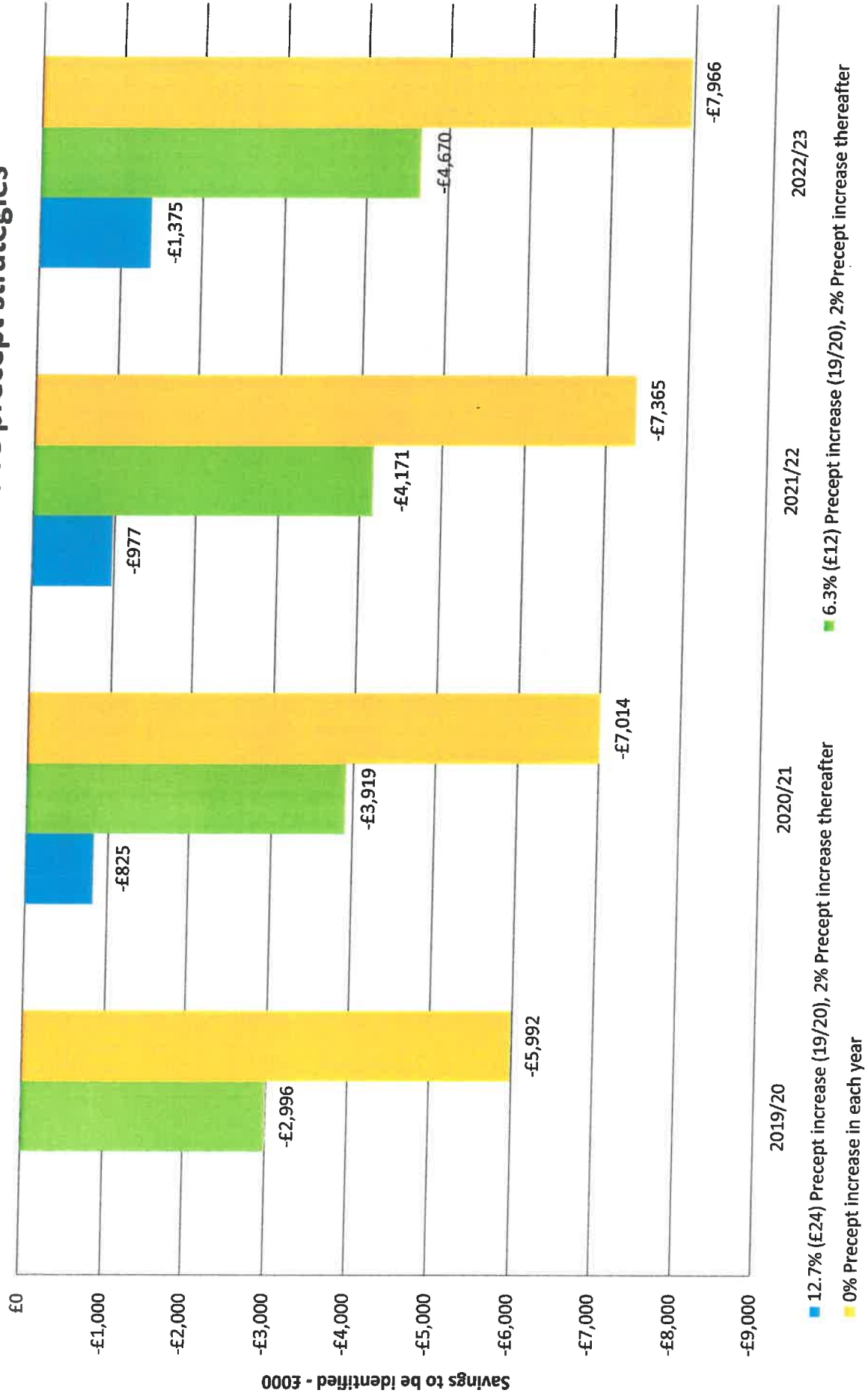
3. Proposed Change to MRP Policy

- 3.1 In previous accounting periods the option adopted for expenditure incurred after 1 April 2008 was Option 3a (Equal Instalment method). This method was deemed prudent whilst assets were primarily being internally financed.
- 3.2 As reserves, cash and investment balances have been consumed following the decrease in direct government funding, it is now necessary to externally finance capital expenditure on long life assets. The current preferred financing method is via the Public Works Loans Board (PWLB) borrowed on an annuity basis.
- 3.3 It is proposed that option 3b (Annuity Method) is adopted for capital expenditure attracting a charge of MRP for the first time in accounting periods 2019/20 onwards. The principal reason for the proposed change is for the charge to revenue to reflect the capital repayment basis on the associated finance. This method will therefore adopt a similar MRP basis as those assets financed through lease or PFI arrangements.
- 3.4 Under the revised Statutory Guidance released on 2 February 2018, this proposed change in policy cannot be applied retrospectively to assets placed in service prior to the date the revised policy was introduced. Therefore it is proposed that Option 3a is still applied to assets incurring an MRP charge up to 31 March 2019.
- 3.5 Based on projected capital spend in the latest medium term financial plan (2019-2023), the change in policy will generate MRP reductions of £10k in 2009/20, £16k in 2020/21, £42k in 2021/22, £49k in 2022/23 and £48k in 2023/24. Savings will continue to be made until 2048/49. From 2049/50, the change in policy will generate additional charges to the revenue budget until 2071/72.

4. Recommendations

- 4.1 It is proposed that the MRP policy is changed for assets attracting a charge for MRP for the first time from 2019-20 onwards.
- 4.2 That the following MRP charges will apply for 2019/20:
- Capital expenditure incurred before April 2008 is treated in accordance with option 1 of the regulatory guidance;
 - Capital expenditure on assets placed in service from April 2008 and attracting an MRP charge for the first time up to 31 March 2019 is treated in accordance with option 3(a) of the regulatory guidance.
 - Capital expenditure on assets attracting a charge for MRP for the first time from 2019-20 onwards is treated in accordance with option 3(b) of the regulatory guidance.

Additional savings to be identified under alternative precept strategies



■ 12.7% (£24) Precept increase (19/20), 2% Precept increase thereafter
■ 6.3% (£12) Precept increase (19/20), 2% Precept increase thereafter
■ 0% Precept increase in each year

COUNCIL TAX and BUDGET OPTIONS 2019/20				
	1		2	
Options for Percentage Increase in Council Tax Bills:	6.33940%		12.67870%	
2019/20 Recommended Budget Summary:	£-p		£-p	
Operational costs before Savings	120,943,630.78		120,943,630.78	
Specific Grants (excluding Council Tax Freeze Grants)	-5,960,238.00		-5,960,238.00	
New Savings from 2019/20	-2,043,270.00		-2,043,270.00	
Savings to be identified	-2,996,153.28		0	
Known Changes	10,851,500.00		10,851,500.00	
Revenue Funding of Capital	1,020,420.00		1,020,420.00	
Appropriations to / from (-) Reserves	-448,758.40		-448,758.39	
Total Budget	121,367,131.11		124,363,284.39	
Budget financed by:				
Police Grant	41,028,003.00		41,028,003.00	
Ex-DCLG Formula Funding	22,990,064.00		22,990,064.00	
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)	433,830.00		433,830.00	
Council Tax Freeze Grant (for no precept increase in 2015/16)	0.00		0.00	
Collection Fund Surplus/Deficit	303,932.00		303,932.00	
CT Support Funding Allocation	4,890,925.00		4,890,925.00	
Council Tax Requirement (based on 250,308 taxbase)	50,259,357.11		53,255,510.39	
	121,367,131.11		124,363,284.39	
Council Tax Rate Bands 19/20 (& increase over 18/19):	Rate	Annual Increase	Rate	Annual Increase
A	133.86	7.98	141.84	15.96
B	156.17	9.31	165.48	18.62
C	178.48	10.64	189.12	21.28
D	200.79	11.97	212.76	23.94
E	245.41	14.63	260.04	29.26
F	290.03	17.29	307.32	34.58
G	334.65	19.95	354.60	39.90
H	401.58	23.94	425.52	47.88