



**MEDIUM TERM
FINANCIAL PLAN
2020-21 to 2023-24**

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1 INTRODUCTION

- 1.1 This report covers the spending proposals and key issues relating to the medium term financial plan (MTFP) for the period 2020-21 to 2023-24. It provides the Police and Crime Commissioner (PCC) with information relating to the revenue budget, capital programme and council tax options, together with associated financing issues.
- 1.2 The report contains the following appendices that provide more detailed information relating to the proposals.

Table 1: List of appendices

Appendix A - Medium Term Financial Plan: 4-year Overview – Options 1 and 2
Appendix B - Planned Revenue Changes 2020-21 to 2023-24 – Options 1 and 2
Appendix C - Savings Plan 2020-21 to 2023-24
Appendix D - Capital Programme 2020-21 to 2023-24
Appendix E - Investment and Treasury Management Strategy
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The Challenging Funding Context

- 1.3 Whilst the overall budget has increased by nearly 10% in the last 2 years from £121.8m to £133.7m due to the increases in council tax, since 2010 the financial context for policing has been challenging. When taking account of actual pay inflation, and average inflation for non-pay, this equates to a reduction in funding in real terms of £21.6m since 2010. This position is changing with significant new investment in policing from 2020-21 following the government's announcement to increase police officer numbers nationally by twenty thousand over the next three years.
- 1.4 In common with other forces, 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 Constabulary has to undertake and require a highly skilled workforce. As a result, Suffolk Constabulary is facing some significant cost pressures that are addressed as part of the development of the MTFP.

- 1.5 Suffolk 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 it having to absorb additional demand from these areas as the 'emergency service of last resort'.
- 1.6 In the MTFP, pay inflation is forecast at 2.5% per annum over the planning period. Non-pay inflation is forecast at between 1.5% and 2.0% per annum over the MTFP period. The combined impact of inflation is over £3.0m of funding pressure each year. This is before other service pressures such as those outlined above are included.
- 1.7 To remain as efficient as possible and make best use of increased funding, in 2020-21 the Constabulary will continue to invest in and refresh technology that keeps the policing model fit-for-purpose and able to meet increasing demand and changing nature of crime. This investment is significant and has a direct impact on the revenue budget.

Service and Financial Planning Process and Consultation

- 1.8 Since 2010, the Constabulary has been running a successful change programme that has delivered savings of £30m. A significant portion of that programme has been delivered through collaboration with Norfolk Constabulary (see paragraphs 2.15 to 2.18).
- 1.9 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 OBB modelling tool. This is the fourth year that OBB has been used, and improvements to the process have been made again this year through the addition of workshops to identify savings opportunities prior to submission of budget bids and inclusion of more information from the annual Force Management Statement (FMS) showing future demand and risk impact on the Constabulary's services.
- 1.10 OBB is a method for aligning budgets to demand, performance, outcomes and priorities. This approach analyses the Constabulary's activity spending, in terms of budgets, police officer and staff numbers, 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.

- 1.11 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 balancing growth and savings. An updated view of the change programme has been developed.
- 1.12 These outputs were then presented to the joint chief officer team, and further refined after these sessions. 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. 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 and annual budgets are balanced.
- 1.13 PCC decisions regarding the annual budget proposals should be made in the context of the medium to longer-term forecasts. 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.
- 1.14 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 the people of Suffolk and ratepayers' representatives.
- 1.15 During the year the PCC organised a series of public engagement events, this included 'Meet the Chief and PCC' sessions at established events such as the Suffolk Show and Lowestoft's 999 Day; three formal meetings with the Chief Constable in Ipswich, Bury St Edmunds and Lowestoft and informal drop-in sessions with local Inspectors in each of the nine policing areas. He also met with local business associations to discuss policing issues, including Suffolk Chamber of Commerce, the National Farmers Union, the Country Land and Business Association, Ipswich and the Road Haulage Association. The PCC also meets with general interest groups such as Rotary and residents' groups including Neighbourhood Watch.
- 1.16 A public survey on the PCC's proposal for the precept increase will capture the views of Suffolk residents 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 2020/21 by 70p a month?'

The survey concludes on 30 January 2020 and the results will be presented at the Police and Crime Panel on 31 January 2020.

2 REVENUE BUDGET 2020-21

Home Office Grant 2020-21

- 2.1 In recent years the government has only issued one-year funding settlements for PCCs, and force-by-force provisional detailed grant settlements announcements are usually made in December for funding commencing the following April. The provisional central government grant settlement announcements for 2020-21 have been delayed until 22 January 2020 due to the general election held in December 2019.
- 2.2 The proposals in this report are based on a provisional settlement for the police main grant and legacy council tax grants; share of £700m to uplift officer numbers nationally by six thousand by the end of March 2021; final local tax base figures and planning assumptions regarding future funding levels, on-going commitments and capital expenditure plans.
- 2.3 **Table 2** below provides a comparison between the 2020-21 provisional grant settlement and 2019-20 figures.

Table 2: Grant funding 2019-20 and 2020-21

	2019-20	2020-21	Variance
	£m	£m	%
Police Main Grant	64.0	68.8	7.5
Legacy Council Tax Grants	6.8	6.8	0.0
Total General Grant Allocation	70.8	75.6	6.8

- 2.4 The police main grant has increased by £4.8m or 7.5% in 2020-21. This is the Constabulary's share of an additional £532m for the recruitment of 6,000 additional officers by the end of March 2021. This is supplemented by £168m nationally to manage the Police Uplift Programme through ring fenced grant (see para 2.6).
- 2.5 The legacy council tax grants are based on two historic elements. The first element is for former council tax freeze grants of £1.9m 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 £4.9m that has been payable since April 2013 when the government made significant changes to council tax benefit arrangements.

- 2.6 In addition to the general grant funding shown in **Table 2** above, Suffolk Constabulary's share of a ringfenced grant for the Police Uplift Programme is £1.5m. This has been allocated in line with the police funding formula and covers the additional costs for an uplift of 54 officers in Suffolk and for additional infrastructure improvements needed to support all additional offers for the period to March 2023. It is receivable quarterly in arrears as the Constabulary progresses against its officer recruitment targets.
- 2.7 Finally, a specific grant to cover an element of the increased employer contributions for the police officer pension schemes awarded in 2019-20 will continue to be received in 2020-21.

Grant Damping and the Police Funding Formula

- 2.8 The Home Office had been engaging with the police service on changes to the police funding formula in recent years. Due to changing government priorities, plans for amending the formula have been postponed until the next Spending Review due in 2020. As a result, there are no changes to grant damping in 2020-21.
- 2.9 Funding from the Ministry of Justice of £887k for victims services and restorative justice services for 2020-21 has been included in the MTFP for both grant income and planned expenditure.

Council Tax Base

- 2.10 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 Options 2020-21

- 2.11 **Table 3** summarises the 2020-21 income position under the following precept options:
- **Option 1 (2%)** - increase in Band D council tax in 2020-21 by **£4.23 per annum**; and
 - **Option 2 (4.69%)** - increase in Band D council tax in 2020-21 by **£9.99 per annum**.

Table 3: Summary of income 2020-21

	Option 1	Option 2
	£m	£m
Police Main Grant	68.809	68.809
Legacy Council Tax Grants	6.786	6.786
Precept Income	56.055	57.521
Other Income	10.704	10.704
Total Income in 2019-20	142.354	143.820

- 2.12 The referendum limit, which provides a ceiling on precept increases above which a PCC needs to hold a referendum, has been set at £10.00 for 2020-21.

Assumptions in the Financial Model

- 2.13 The 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.
- 2.14 The MTFP has been prepared using the following financial assumptions:

Table 4: MTFP planning assumptions 2020-21 to 2023-24

	2020-21	2021-22	2022-23	2023-24
Police main grant changes	7.5%	0%	0%	0%
Legacy council tax grant changes	0%	0%	0%	0%
Council tax base change	1.6%	1%	1%	1%
Collection fund surplus	£859k	£0k	£0k	£0k
Pay awards – officers	2.5%	2.5%	2.5%	2.5%
Pay awards – staff	2.5%	2.5%	2.5%	2.5%
Non-pay inflation (average)	1.5%	2%	2%	2%

- 2.15 **Table 5** identifies potential changes to the annual budget (up or down) if the planning assumptions are changed:

Table 5: Budget movements due to 1% change in assumptions

	Variation	Variation
Main government grants	1.0%	£0.64m
Tax base increase	1.0%	£0.53m
Precept	1.0%	£0.53m
Pay awards officers (full year impact)	1.0%	£0.52m
Pay awards staff (full year impact)	1.0%	£0.36m
Non-pay inflation	1.0%	£0.25m

The financial planning assumptions will be kept under review throughout the MTFP period.

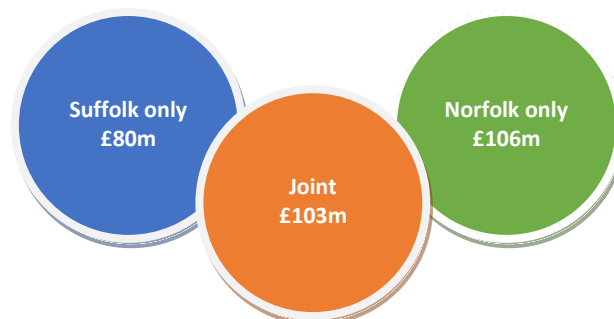
Change and Efficiency Programme and the Service and Financial Planning Process

Collaborative Change

- 2.16 Suffolk and Norfolk Constabularies have been collaborating for a decade. In the period to 2019-20, a large number of business cases have been implemented and total savings have been found from collaboration of £38.9m (£19.0m Suffolk and £19.9m Norfolk).
- 2.17 **Box 1** shows that the 'joint' services budget is now over a third of the combined budget of both forces and stands at £103m.

Box 1: Suffolk and Norfolk Constabularies collaboration 2019-20

Norfolk and Suffolk Collaboration



- 2.18 As part of the Service and Financial Planning process for 2020-21 to 2023-24, further savings of £2.6m in 2020-21 have been identified from the collaborative units (Suffolk's share £1.3m rising to £1.9m by 2022-23). These have been developed in consideration of the information in the FMS 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 be prepared to realise these savings during 2020-21 and 2021-22.
- 2.19 The planned savings programme is set out in [Appendix C](#).

Regional Collaboration

- 2.20 The PCCs and Chief Constables (CC) for the 6 police areas in the East of England together with the CC and PCC for Kent continue to support the 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.
- 2.21 Business cases have been prepared for a common 7 Force enterprise resource planning platform and integration of ICT across all 7 forces. Both business cases emphasise savings opportunities and improved interoperability through greater convergence of forces. This would require additional investment which has not been included in the MTFP and which would be financed from reserves following approval from the PCC. Other 7 Forces work continues in vetting and digital asset management.
- 2.22 The converged 7 Force procurement function went live in January 2020. No savings have been recognised for 7 Force collaborative procurement in this MTFP. Suffolk and Norfolk Constabularies have realised procurement savings over recent years, and the initial pipeline opportunities are limited at this stage. Opportunities from savings through 7 Force collaborative procurement that arise during this MTFP period will be reflected in future budgets.

Precept Options

2.23 **Precept option 1 (2%)** - increase Band D council tax by £4.23 in 2020-21 (and 2% each year thereafter).

Table 6: Income and expenditure under precept option 1

2% precept increase	Budget	Forecast	Forecast	Forecast
	2020-21	2021-22	2022-23	2023-24
	£000	£000	£000	£000
Total funding	(131,650)	(132,453)	(134,166)	(135,931)
Net revenue expenditure before changes and savings	124,856	129,147	132,351	135,633
Revenue (surplus)/ deficit before known changes	(6,794)	(3,306)	(1,815)	(298)
Known/ expected changes	9,546	7,149	7,384	8,433
Planned (use of)/ contribution to reserves	(1,468)	1,002	940	4
Revenue deficit before savings	1,282	4,845	6,510	8,157
Planned savings	(1,282)	(1,712)	(1,751)	(1,779)
Savings to be identified	-	(3,133)	(4,759)	(6,378)
Revenue deficit/ (surplus after savings)	-	-	-	-

2.24 Based on the planning assumptions set out in this report, further savings of £6.378m are required to be made in the period 2020-21 to 2023-24 to achieve a balanced budget over the MTFP period (see Appendix A(i)).

2.25 **Precept option 2 (4.69%)** - increase Band D council tax by £9.99 in 2020-21 (and 2% each year thereafter).

Table 7: Income and expenditure under precept option 2

4.69% precept increase	Budget	Forecast	Forecast	Forecast
	2020-21	2021-22	2022-23	2023-24
	£000	£000	£000	£000
Total funding	(133,116)	(133,956)	(135,708)	(137,512)
Net revenue expenditure before changes and savings	124,856	129,146	132,351	135,633
Revenue (surplus)/ deficit before known changes	(8,260)	(4,810)	(3,357)	(1,879)
Known/ expected changes	11,011	8,644	8,909	9,988
Planned (use of)/ contribution to reserves	(1,468)	1,002	940	4
Revenue deficit before savings	1,282	4,836	6,491	8,130
Planned savings	(1,282)	(1,712)	(1,751)	(1,779)
Savings to be identified	-	(3,124)	(4,740)	(6,351)
Revenue deficit/ (surplus after savings)	-	-	-	-

- 2.26 Based on the planning assumptions set out in this report, further savings of £6.351m are required to be made in the period 2020-21 to 2023-24 to achieve a balanced budget over the MTFP period (see Appendix A(ii)).

3 CAPITAL PROGRAMME 2020-21 to 2023-24

- 3.1 The capital programme is a key element of strategic and financial planning. As highlighted over the last few years 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 the estate and in refreshing the growing ICT/ digital capabilities and investing in digital technologies to drive more efficient ways of working and maintaining the investment in enabling programmes.
- 3.3 There has been an increased reliance on reserves to fund short-life assets over the last few years due to funding constraints. 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 5) as well as the capital and reserves strategies (see [Appendices F and G](#)).
- 3.4 [Appendix D](#) provides a detailed analysis of the outline capital programme over the medium term, with the table below summarising these plans.

Table 8: Summary capital programme 2020-21 to 2023-24

	2020-21	2021-22	2022-23	2023-24
	£000	£000	£000	£000
Suffolk only capital programme				
Estates	1,783	1,790	-	-
ICT	515	394	529	532
Vehicles and equipment	837	788	730	816
Sub-total	3,135	2,972	1,259	1,348
Share of joint capital programme				
ICT schemes and projects	4,440	2,071	1,512	1,556
Total	7,535	5,043	2,771	2,904

- 3.5 The capital programme (provided at [Appendix D](#)) is arranged in 2 tables:

- **Table A** - Schemes or technical refresh programmes already approved for 2020-21.
- **Table B** - Schemes requiring a business case or further report to the PCC(s) for approval.

3.6 The programme identifies those schemes which are joint projects with Norfolk Constabulary. Where applicable, the figures shown relate to Suffolk's share of the overall cost, which is calculated in proportion to the net revenue budget.

Funding the Capital Programme

3.10 The following funding sources have been identified to support the outline capital programme, which will be updated to take account of approved changes to the programme. In addition, funding will move with the asset purchase whenever there is slippage in the programme.

Table 9: Funding sources for capital programme 2020-21 to 2023-24

	2020-21	2021-22	2022-23	2023-24
	£000	£000	£000	£000
Capital Receipts	1,815	1,385	845	45
Capital Grant	119	100	100	100
Revenue Contribution	3,097	2,900	2,900	2,900
Capital Financing Reserve	1,151	(1,132)	(1,074)	(141)
Internal/ External Borrowing	1,353	1,790	-	-
Total	7,535	5,043	2,771	2,904

- 3.11 Modest external borrowing may 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 PCCs receive an annual capital grant which must be used to support capital expenditure. The provisional settlement includes a reduced capital grant from £0.4m to £0.119m.
- 3.13 The shortfall in required capital expenditure and the Home Office capital grant is met by revenue and reserve funding of the capital programme.

Minimum Revenue Provision

- 3.14 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 place a duty on the OPCC to make a charge against the PCC's revenue budget each year for capital purchases financed by borrowing (including internal borrowing) or credit arrangement. The annual charge is known as the minimum revenue provision (MRP). Regulations require the PCC to determine each financial year an amount of MRP, which it considers to be prudent by reference to a calculated capital financing requirement.
- 3.15 MRP is charged annually against the PCC's revenue budget reflecting the cost of the asset over its life, with the MTFP reflecting the required provision.
- 3.16 The MRP policy and statement has been reviewed and updated and is provided at [Appendix H](#). No changes to the current MRP policy are proposed for 2020-21 and throughout the MTFP period.

4 INVESTMENT AND TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2020-21

Investment and Treasury Management Strategy

- 4.1 Government regulations require the PCC to approve the investment and borrowing strategies and borrowing limits for 2020-21 prior to the start of the financial year. This is incorporated within an over-arching investment and treasury management strategy, which is provided at [Appendix E](#).
- 4.2 The investment and treasury management strategy, which includes a number of Prudential Code and treasury management indicators has been developed in accordance with guidance issued by The Chartered Institute of Public Finance and Accountancy (CIPFA). No changes to the strategy are proposed from 2019-20.

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 are 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 2020-21 are provided in [Appendix E](#). No changes to the indicators have been proposed from 2019-20. Progress against the indicators will be monitored and reported during the year. The indicators can be changed during the year with the PCC's approval.

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, Strategic Business and Operational Services and other enabling departments from both Norfolk and Suffolk Constabularies, resulting in greater financial clarity and consistency in financial plans.
- 5.5 In summary, both the PCC CFO and CC CFO are 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 2020-21 in respect of year-to-date financial performance and year-end projections for 2020-21. These will continue to be considered in detail by the PCC, CC and their CFOs at the public meetings of 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 existing established governance arrangements.

Adequacy of Reserves

- 5.10 Projected levels of reserves are shown in the reserves strategy provided at [Appendix G](#). The current strategy remains unchanged from 2019-20 and is to maintain the general reserve close to 3.0% of the net revenue budget. This continues to be considered a prudent and adequate amount.
- 5.11 Earmarked reserves are held for a specific purpose with funds set aside for their future use. The strategy remains unchanged from 2019-20 and is to keep earmarked reserves at an appropriate level to meet future payments as and when they fall due thereby ensuring taxpayers' money is used as efficiently as possible. The strategy is to continue to contribute to the capital financing reserve and to keep this at an appropriate level throughout the MTFP period to fund future capital purchases.
- 5.12 CIPFA guidance on reserves includes 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’.
- (CIPFA, LAAP Bulletin 99, July 2014)
- 5.13 Having considered the levels of reserves included in the MTFP and taking account of the approach to managing financial risk set out above, both the PCC CFO and CC CFO consider that there will be adequate general and earmarked reserves to continue the smooth running of the PCC and Constabulary's finances over the MTFP period.

6 CHIEF CONSTABLE'S COMMENTARY

- 6.1 The provisional 2020-21 settlement of the police main grant includes an increase in funding of £4.8m (7.5%) over 2019-20 and a ringfenced grant for £1.5m as part of the government's commitment to increase officers nationally by 6,000 by the end of March 2021. PCCs have been given the freedom to increase their band D precept by £9.99 in 2020-21 without the need to call a 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 Police and Crime Plan 2017-21, 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 £1.282m in 2020-21, rising to £1.779m 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 2% throughout the MTFP period (Option 1) and increase the precept by £9.99 for 2020-21 and 2% for the three remaining years of the MTFP (Option 2).
- 6.5 A decision to implement Option 1 would result in the Constabulary delivering a balanced budget and investment in the following precept-funded activities:
- **Police staff investigators to support the ANPR Operation Sentinel teams** to crackdown on criminals, protect local communities and tackle cross-border criminality;
 - **Create an additional serious crime disruption team** to tackle county lines and other serious and organised criminality; and
 - **Enhance our outcome resolution team** of detectives who work with convicted offenders to identify other offences they have committed.
- 6.6 A decision to implement Option 2 would provide additional funding of £1.5m more than Option 1, and would provide the necessary finances to deliver a balanced budget in 2020-21, the precept-funded activities under option 1 and the following additional activities:
- **Increase our neighbourhood policing teams across the county** to focus on crime prevention and tackle emerging high-risk issues regarding missing people, modern day slavery and young people.

- **Create a new domestic abuse perpetrator scheme** to reduce and prevent harm to vulnerable victims by recruiting additional police officer(s) and police staff to work with high risk and frequent domestic abuse offenders.
- **Provide an additional police officer for the countywide rural crime team** which deals with a wide range of issues including vehicle and machinery theft, domestic abuse, incidents involving firearms, hare-coursing, wildlife crime, heritage and metal theft and arson.
- **Create a new commercial vehicle enforcement unit** of two specialist officers who can improve the way we deal with dangerous vehicles or driver offences that contribute to serious collisions, and keep the major roads in Suffolk safe and moving.
- **Create a new neighbourhood crime proactive team** that will be deployable to any part of the county to deal with operational threats and challenges, tackling high volume crimes and acting on issues that matter to local communities.

6.7 Monitoring delivery of improvements in performance from the additional policing resources provided through the increased budget will be at each of the publicly held Accountability and Performance Panel meetings.

7 CONCLUSION AND SUMMARY OF OPTIONS

- 7.1 The MTFP has been prepared following notification of the provisional 2020-21 settlements from the Home Office on 22 January 2020 and in conjunction with a wide range of assumptions summarized in section two of this report.
- 7.2 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), and I**, and are summarised below:

Option 1

Based on the planning assumptions set out in this report, this option would result in the Constabulary delivering a balanced budget and investment in the following precept-funded activities:

- **Police staff investigators to support the ANPR Operation Sentinel teams**
- **Create an additional serious crime disruption team**
- **Enhance our outcome resolution team**

Option 2

Based on the planning assumptions set out in this report, this option would result in the Constabulary delivering a balanced budget and additional funding of £1.5m more than Option 1, therefore allowing the precept investment in Option 1 and the following additional activities:

- **Increase our neighbourhood policing teams across the county**
- **Create a new domestic abuse perpetrator scheme**
- **Provide an additional police officer for the countywide rural crime team**
- **Create a new commercial vehicle enforcement unit**
- **Create a new neighbourhood crime proactive team**

8 RECOMMENDATIONS

8.1 It is recommended that the PCC:

- (i) Takes account of the overall financial strategy, when considering the 2020-21 budget proposals in [Appendix A](#), 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 2020-21 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](#) noting that no changes are proposed for 2020-21;
- (vi) Approves the capital strategy in [Appendix F](#);
- (vii) Approves the proposed use and transfer of reserve balances in [Appendix G](#);
- (viii) Approves the MRP policy and statement in [Appendix H](#) noting that no changes to the MRP policy are proposed for 2020-21 and throughout the MTFP period; and
- (ix) When setting the precept level consideration is given to the medium-term financial implications of options 1 and 2, the assessment of financial risks contained in this report and the Chief Constable's commentary on the financial position.

Appendix A(i)

SUFFOLK MEDIUM TERM FINANCIAL PLAN - 4 YEAR OVERVIEW - OPTION 1					
Precept increase 2%					
	2020/21	2021/22	2022/23	2023/24	Comments
	£000	£000	£000	£000	
REVENUE FUNDING					
Home Office Grant	(68,809)	(68,809)	(68,809)	(68,809)	
Legacy Council Tax Grants	(6,786)	(6,786)	(6,786)	(6,786)	
Precept Income	(56,055)	(56,858)	(58,571)	(60,336)	2% Precept Increase, 1.62% increase in CT base in 2020/21, 1% thereafter
TOTAL FUNDING	(131,650)	(132,453)	(134,166)	(135,931)	
BASE REVENUE BUDGET INCLUDING INFLATION:					
Constabulary Revenue Budget before savings	130,096	133,359	136,619	139,958	Excludes Capital
PCC Corporate Budget	885	885	885	885	
PCC Commissioning Budget	1,732	1,652	1,652	1,652	
Revenue Funding of Capital, Minimum Revenue Provision and Interest	2,846	2,846	2,846	2,846	
Total Revenue Income inc Specific Grants	(10,704)	(9,596)	(9,652)	(9,709)	
NET REVENUE BUDGET BEFORE KNOWN CHANGES AND SAVINGS	124,856	129,147	132,351	135,633	
REVENUE DEFICIT BEFORE KNOWN CHANGES					
	(6,794)	(3,306)	(1,815)	(298)	
Known / Expected Changes	9,546	7,149	7,384	8,451	Appendix B(i)
Planned (use of)/contribution to reserves	(1,468)	1,002	940	4	Appendix B(i)
REVENUE DEFICIT BEFORE SAVINGS	1,282	4,845	6,510	8,157	
Change Programme Savings	(1,282)	(1,712)	(1,751)	(1,779)	Appendix C
Total Cumulative Impact of Savings	(1,282)	(1,712)	(1,751)	(1,779)	
REVENUE (SURPLUS) / DEFICIT AFTER SAVINGS	0	3,133	4,759	6,378	
SURPLUS/(SAVINGS TO BE IDENTIFIED)	(0)	(3,133)	(4,759)	(6,378)	
REVENUE DEFICIT / (SURPLUS)	0	0	0	0	

Appendix A(ii)

SUFFOLK MEDIUM TERM FINANCIAL PLAN - 4 YEAR OVERVIEW - OPTION 2					
Precept increase £10 (4.69%)					
	2020/21	2021/22	2022/23	2023/24	Comments
	£000	£000	£000	£000	
REVENUE FUNDING					
Home Office Grant	(68,809)	(68,809)	(68,809)	(68,809)	
Legacy Council Tax Grants	(6,786)	(6,786)	(6,786)	(6,786)	
Precept Income	(57,521)	(58,361)	(60,113)	(61,917)	£10 (4.69%) Precept Increase in 2020/21, 2% thereafter, 1.62% increase in CT base in 2020/21, 1% thereafter
TOTAL FUNDING	(133,116)	(133,956)	(135,708)	(137,512)	
BASE REVENUE BUDGET INCLUDING INFLATION:					
Constabulary Revenue Budget before savings	130,096	133,359	136,619	139,958	Excludes Capital
PCC Corporate Budget	885	885	885	885	
PCC Commissioning Budget	1,732	1,652	1,652	1,652	
Revenue Funding of Capital, Minimum Revenue Provision and Interest	2,846	2,846	2,846	2,846	
Total Revenue Income inc Specific Grants	(10,704)	(9,596)	(9,652)	(9,709)	
NET REVENUE BUDGET BEFORE KNOWN CHANGES AND SAVINGS	124,856	129,146	132,351	135,633	
REVENUE DEFICIT BEFORE KNOWN CHANGES					
	(8,260)	(4,811)	(3,357)	(1,879)	
Known / Expected Changes	11,011	8,644	8,909	10,006	Appendix B(ii)
Planned (use of)/contribution to reserves	(1,468)	1,002	940	4	Appendix B(ii)
REVENUE DEFICIT BEFORE SAVINGS	1,282	4,836	6,491	8,130	
Change Programme Savings	(1,282)	(1,712)	(1,751)	(1,779)	Appendix C
Total Cumulative Impact of Savings	(1,282)	(1,712)	(1,751)	(1,779)	
REVENUE (SURPLUS) / DEFICIT AFTER SAVINGS	0	3,124	4,740	6,351	
SURPLUS/(SAVINGS TO BE IDENTIFIED)	(0)	(3,124)	(4,740)	(6,351)	
REVENUE DEFICIT / (SURPLUS)	0	0	0	0	

Appendix B(i)

PLANNED REVENUE CHANGES - SUFFOLK - 2020/2024 - Option 1	Proposed 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24
	£000	£000	£000	£000
STATUTORY CHANGES				
Rent and Housing Allowance Reductions	(150)	(300)	(370)	(400)
Variation in Bank Holiday Numbers (8 in 2019/20 then 9, 11, 9, 9)	92	276	92	92
Local Government Pension Scheme	(50)	(50)	(50)	(50)
Firearms Licensing Income	(78)	(73)	(56)	25
TOTAL STATUTORY CHANGES	(186)	(147)	(384)	(333)
INVESTMENT				
Officer uplift	1,989	2,651	2,717	2,785
Core grant investment (Operation Uplift)	1,401	1,436	1,472	1,509
Challenge Panel Process Review - Resources - Uplift	468	644	660	676
Challenge Panel Process Review - Resources - Non-Uplift	78	80	82	84
Challenge Panel Process Review - Resources - Business Cases	495	507	520	533
TOTAL INVESTMENT	4,431	4,731	4,849	4,970
SERVICE DEVELOPMENTS				
Contractual risk re Airwave		215	215	215
Civil Parking Enforcement	190			
7 Force Collaboration Contribution	127	130	133	137
Disaster Victim Identification Contribution	13	13	14	14
PEQF - DHEP training costs		182	372	372
PEQF - Co-investment			69	69
PEQF - L&D Resource	224	391	401	411
Digital Mobile Workflow solution	129	129	129	129
Digital Asset Management System / Digital Evidence Transfer System		181	181	181
National Enabler Programme Charges	101	101	100	49
Temporary Pay growth	859			
Challenge Panel Process Review - Non Pay	1,351	1,351	1,351	1,351
TOTAL SERVICE DEVELOPMENTS	2,994	2,693	2,964	2,927
CAPITAL FINANCING				
Minimum Revenue Provision	17	22	41	41
Revenue Funding of Capital	1,093	895	895	895
Capital Programme Funding - Reserve	1,151	(1,132)	(1,074)	(141)
Interest	45	87	93	92
TOTAL CAPITAL FINANCING	2,306	(128)	(45)	887
Total Changes Before Reserve Movement Adjustments	9,546	7,149	7,384	8,451
CONTRIBUTION TO RESERVES				
Capital Financing Reserve		1,132	1,074	141
Use of Reserves				
7 Force Collaboration Contribution	(127)	(130)	(133)	(137)
Capital Funding	(1,151)			
Civil Parking Enforcement	(190)			
Net Reserve Movements	(1,468)	1,002	940	4
Total	8,077	8,151	8,325	8,455

Appendix B(ii)

PLANNED REVENUE CHANGES - SUFFOLK - 2020/2024 - Option 2				
	Proposed	Forecast	Forecast	Forecast
	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
STATUTORY CHANGES				
Rent and Housing Allowance Reductions	(150)	(300)	(370)	(400)
Variation in Bank Holiday Numbers (8 in 2019/20 then 9, 11, 9, 9)	92	276	92	92
Local Government Pension Scheme	(50)	(50)	(50)	(50)
Firearms Licensing Income	(78)	(73)	(56)	25
TOTAL STATUTORY CHANGES	(186)	(147)	(384)	(333)
INVESTMENT				
Officer uplift	1,989	2,651	2,717	2,785
Core grant investment (Operation Uplift)	1,401	1,436	1,472	1,509
Additional investment - additional precept above 2%	1,465	1,494	1,524	1,555
Challenge Panel Process Review - Resources - Uplift	468	644	660	676
Challenge Panel Process Review - Resources - Non-Uplift	78	80	82	84
Challenge Panel Process Review - Resources - Business Cases	495	507	520	533
TOTAL INVESTMENT	5,896	6,225	6,373	6,525
SERVICE DEVELOPMENTS				
Contractual risk re Airwave		215	215	215
Civil Parking Enforcement	190			
7 Force Collaboration Contribution	127	130	133	137
Disaster Victim Identification Contribution	13	13	14	14
PEQF - DHEP training costs		182	372	372
PEQF - Co-investment			69	69
PEQF - L&D Resource	224	391	401	411
Digital Mobile Workflow solution	129	129	129	129
Digital Asset Management System / Digital Evidence Transfer System		181	181	181
National Enabler Programme Charges	101	101	100	49
Temporary Pay growth	859			
Challenge Panel Process Review - Non Pay	1,351	1,351	1,351	1,351
TOTAL SERVICE DEVELOPMENTS	2,994	2,693	2,964	2,927
CAPITAL FINANCING				
Minimum Revenue Provision	17	22	41	41
Revenue Funding of Capital	1,093	895	895	895
Capital Programme Funding - Reserve	1,151	(1,132)	(1,074)	(141)
Interest	45	87	93	92
TOTAL CAPITAL FINANCING	2,306	(128)	(45)	887
Total Changes Before Reserve Movement Adjustments	11,011	8,644	8,909	10,006
CONTRIBUTION TO RESERVES				
Capital Financing Reserve		1,132	1,074	141
Use of Reserves				
7 Force Collaboration Contribution	(127)	(130)	(133)	(137)
Capital Funding	(1,151)			
Civil Parking Enforcement	(190)			
Net Reserve Movements	(1,468)	1,002	940	4
Total	9,542	9,645	9,849	10,010

Appendix C

SAVINGS PLAN - SUFFOLK - 2020/2024				
	Forecast	Forecast	Forecast	Forecast
	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
Change and Efficiency Savings:				
As per challenge panels:				
Pay (including inflation)	733	1,021	1,047	1,073
Non-Pay	549	691	705	706
Total Change and Efficiency Savings	1,282	1,712	1,751	1,779
PERMANENT SAVINGS AGAINST 18/19 BASE:	1,282	1,712	1,751	1,779

Appendix D

CAPITAL - SUFFOLK- 2020/21 - 2023/24								
PROJECT	Slippage assumed in 2019/20 monitoring	Additional Requirement in 2020/21	2020-21 Total Requirement		2021-22	2022-23	2023-24	4 Year total
			Table A	Table B				
Estates Downsizing - Stowmarket	1,330,000	-975,000	355,000		1,200,000			1,555,000
Estates Downsizing - Mildenhall Hub		308,000	308,000		20,000			328,000
Estates Downsizing - Sudbury	50,000	0	50,000					50,000
Estates Downsizing - Haverhill		0			20,000			20,000
Ipswich NE SNT - Heath Road	240,000	0	240,000		50,000			290,000
Estates Downsizing - Ipswich Town Centre	800,000	-500,000		300,000	500,000			800,000
Bury St Edmunds - Firearms Upgrade		100,000		100,000				100,000
Bury St Edmunds - Car Park Extension		100,000		100,000				100,000
Bury St Edmunds - OPE Western Way		30,000		30,000				30,000
PHQ - Site Review - Internal Staff Project Team		150,000		150,000				150,000
PHQ - Site Review - Consultancy		150,000		150,000				150,000
Total Estates - Suffolk Only	2,420,000	-637,000	953,000	830,000	1,790,000	0	0	3,573,000
ICT Replacements - Desktop Services		363,570	363,570		260,230	395,000	448,000	1,466,800
ICT Replacements - Communications		84,000	84,000		84,000	84,000	84,000	336,000
ANPR Vehicle Kit Refresh		50,000	50,000		50,000	50,000		150,000
Thin Client Replacement		17,000	17,000					17,000
Total ICT - Suffolk Only	0	514,570	514,570	0	394,230	529,000	532,000	1,969,800
Athena		44,298	44,298					44,298
Static Cameras - 6 @ £5,250 each		31,500		31,500				31,500
Additional Dual Lane Cameras - 4 @ £7,500 each		30,000		30,000				30,000
Fixed Site Cameras in Suffolk - 3 x £5,087 each		15,260		15,260				15,260
Vehicle Replacements		716,000	716,000	0	788,000	730,000	816,000	3,050,000
Total Equipment and Vehicle Replacements - Suffolk Only	0	837,058	760,298	76,760	788,000	730,000	816,000	3,171,058
Total Suffolk Only	2,420,000	714,628	2,227,868	906,760	2,972,230	1,259,000	1,348,000	8,713,858
Suffolk Share of Replacement Schemes	-	831,069	831,069	-	1,237,909	995,902	876,851	3,941,731
Suffolk Capital Programme	2,420,000	1,545,697	3,058,937	906,760	4,210,139	2,254,902	2,224,851	12,655,589
Suffolk Share of Joint Projects	700,947	2,868,138	1,603,067	1,966,018	833,170	516,340	679,311	5,597,905
Total Suffolk Capital Programme	3,120,947	4,413,835	4,662,004	2,872,778	5,043,309	2,771,241	2,904,162	18,253,494

Appendix D cont.

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

Appendix D cont.

Digital Portfolio								
Live Link Project	21,109	0	21,109					21,109
Digital Strategy - Frontline Mobile Devices	0	104,270	104,270					104,270
Digital Recording/Streaming	120,000	-2,452	117,548					117,548
Body Worn Video	0	63,303	63,303					63,303
Mobile Workflow (OPTIK)	200,000	250,000	250,000	200,000	200,000	200,000	200,000	1,050,000
Digital Public Contact	100,000	200,000	200,000	100,000				300,000
DAMS (Digital Asset Management)	600,000	90,233	590,233	100,000				690,233
National Enablers Programme (NEP)		120,000		120,000				120,000
Single Online Home (SOH)	139,000	0		139,000				139,000
Next Generation Computing Trial		50,000		50,000				50,000
Total Digital Portfolio	1,180,109	875,354	1,346,463	709,000	200,000	200,000	200,000	2,655,463
Protective Services:								
Radio Frequency Capacity		237,000		237,000				237,000
Taser Upgrade - X2s		605,600	605,600		741,860			1,347,460
SCIT Collision Scene Scanners		30,000		30,000				30,000
ANPR in all RAPT Vehicles		115,000		115,000				115,000
Replacement of Speed Detection Devices		23,970		23,970				23,970
Laser Sights for Weapon Systems		50,000		50,000				50,000
Rifle Capability		20,000		20,000				20,000
Carbine Magazine Upgrade		17,800		17,800				17,800
Total Protective Services:	0	1,099,370	605,600	493,770	741,860	0	0	1,841,230
Other Projects:								
ERP Change Control		100,000	100,000		80,000	88,000	89,000	357,000
CycFreedom Replacement (Info Man)		110,000		110,000				110,000
Genie Clearcore - Phase 3		100,000		100,000	0			100,000
Project Server		30,000		30,000				30,000
DMS Upgrade		100,000		100,000				100,000
ERP Athena Interface		40,000		40,000				40,000
Learning Management System		80,000		80,000				80,000
Skills Module ERP		100,000		100,000	100,000			200,000
Occupational Health and Welfare system		30,000		30,000				30,000
ANPR Hub - Cleartone App		16,000		16,000				16,000
ERP		2,200,000		2,200,000				2,200,000
Total Other Projects	0	2,906,000	100,000	2,806,000	180,000	88,000	89,000	3,263,000
Total Joint Capital Programme	1,630,109	8,602,807	5,660,781	4,572,135	4,816,463	3,516,840	3,618,981	22,185,200
Joint Capital Projects - Norfolk	929,162	4,903,600	3,226,645	2,606,117	2,745,384	2,004,599	2,062,819	12,645,564
Joint Capital Projects - Suffolk	700,947	3,699,207	2,434,136	1,966,018	2,071,079	1,512,241	1,556,162	9,539,636
	1,630,109	8,602,807	5,660,781	4,572,135	4,816,463	3,516,840	3,618,981	22,185,200

Appendix D cont.

CAPITAL FINANCING							
Source				2020-21	2021-22	2022-23	2023-24
Applied							
Capital Grant				117,714	100,000	100,000	100,000
Total Capital Receipts				1,815,000	1,385,000	845,000	45,000
Revenue Funding - MTFP				3,097,847	2,900,000	2,900,000	2,900,000
Capital Financing Reserve				1,151,221	(1,131,691)	(1,073,759)	(140,838)
Internal Borrowing (MRP) Long Term Assets				1,353,000	1,790,000	0	0
Total Capital Financing				7,534,782	5,043,309	2,771,241	2,904,162

Appendix E

Annual Investment and Treasury Management Strategy Statement 2020/21

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.”

The 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 2020-21, 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 the 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.

The Capital Strategy will be published separately

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 2020/21

The strategy for 2020/21 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 members with 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 Norfolk. 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

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

While the Bank of England went through the routine of producing another quarterly Inflation Report, (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers are worth when faced with the uncertainties of where the UK will be following the general election. The Bank made a change in their EU Exit assumptions to now include a deal being eventually passed. Possibly the biggest message that is worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global

economic growth and the potential for EU Exit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or EU Exit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence the MPC views inflation as causing little concern in the near future.

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

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

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

economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

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

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

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

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

However, in early November, a phase one deal was agreed between the US and China to roll back some of the tariffs which gives some hope of resolving this dispute.

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

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

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

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still

needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

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

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative

easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

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

The interest rate forecasts provided by Link Asset Services above are **predicated on an assumption of an agreement being reached on EU Exit between the UK and the EU.**

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

- In the event of an **orderly non-agreement exit**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there was a **disorderly EU Exit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

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

The balance of risks to the UK

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

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

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

- **EU Exit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**. In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in

popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.

- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but this time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some \$19trn of corporate debt in major western economies**, if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is \$15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks**, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

- **EU Exit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within

the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- **UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Link Asset Services

November 2019 (updated)

4. Investment Strategy 2020/21

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

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

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

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

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

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

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

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

- security of principal invested,
- liquidity for cash flow, and

- investment return (yield).

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

- 4.4 MHCLG's Investment Guidance requires local authorities and PCCs to invest prudently and give priority to security and liquidity before yield, as described above. In order to facilitate this objective, the Guidance requires the PCC to have regard to CIPFA's Code of Practice for Treasury Management in the Public Sector.
- 4.5 The key requirements of both the Code and the Investment Guidance are to produce an Annual Investment and Treasury Strategy covering the following:
- Guidelines for choosing and placing investments – Counterparty Criteria and identification of the maximum period for which funds can be committed – Counterparty Monetary and Time Limits (Section 5).
 - Details of Specified and Non-Specified investment types.

5. Investment Strategy 2020/21 - Counterparty Criteria

- 5.1 The PCC works closely with its external treasury advisors to determine the criteria for high quality institutions.
- 5.2 The criteria for providing a pool of high-quality investment counterparties for inclusion on the PCC's 'Approved Authorised Counterparty List' is provided below
- (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 2020/21 will be either Sterling deposits (including certificates of deposit) or Sterling Treasury Bills invested with banks and other institutions in accordance with the Approved Authorised Counterparty List.
- 5.4 The Code of Practice requires local authorities and PCCs to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for use, additional market information will be used to inform investment decisions. This additional market information includes, for example, Credit Default Swap rates and equity prices in order to compare the relative security of counterparties.
- 5.5 The current maximum lending limit of £10m for any counterparty will be maintained in 2020/21 to reflect the level of cash balances and to avoid large deposits with the DMO.
- 5.6 In addition to individual institutional lending limits, "Group Limits" will be used whereby the collective investment exposure of individual banks within the same banking group is restricted to a group lending limit of £10m.

- 5.7 The Strategy permits deposits beyond 365 days (up to a maximum of 2 years) but only with UK banks which meet the credit ratings at paragraph 5.2. Deposits may also be placed with UK Part Nationalised Banks and Local Authorities for periods of up to 2 years.
- 5.8 A reasonable amount will be held on an instant access basis in order for the PCC to meet any unexpected needs. Instant access accounts are also preferable during periods of credit risk uncertainty in the markets, allowing the PCC to immediately withdraw funds should any concern arise over a particular institution.

6. Investment Strategy 2020/21 – Specified and Non-Specified Investments

- 6.1 As determined by CLG’s Investment Guidance, Specified Investments offer “high security and high liquidity”. They are Sterling denominated and have a maturity of less than one year or for a longer period but where the PCC has the right to be repaid within one year if he wishes. Institutions of “high” credit quality are deemed to be Specified Investments where the possibility of loss of principal or investment income is small. From the pool of high-quality investment counterparties identified in Section 5, the following are deemed to be Specified Investments:
- Banks: UK and Non-UK;
 - Part Nationalised UK Banks;
 - The PCC’s Corporate Banker (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 that cannot be recalled within 365 days of initiation.
- 6.3 The categorisation of ‘Non-Specified’ does not in any way detract from the credit quality of these institutions, but is merely a requirement of the Government’s guidance.
- 6.4 The PCC’s proposed Strategy for 2020/21 therefore includes both Specified and Non-Specified Investment institutions.

7. Borrowing Strategy 2020/21

- 7.1 Capital expenditure can be funded immediately by applying capital receipts, capital grants or revenue contributions. Capital expenditure in excess of available capital resources or revenue contributions will 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 Historically, the main source of long-term loans was the Public Works Loan Board (PWLB), which is part of the UK Debt Management Office (DMO). The maximum period for which loans can be advanced by the PWLB is 50 years. However, on 9 October 2019, HM Treasury increased PWLB rates by 100 basis points, many local authorities will now be viewing the PWLB as a lender of last resort. It is very likely that alternative providers of finance will step into the market for lending to local authorities. It is not certain whether this decision will be reversed if Gilt rates rise within the next year.
- 7.4 External borrowing currently stands at £7.9m (excluding PFI). At 31 March 2019 there was a £13.0m Capital Financing Requirement (CFR) relating to unfunded capital expenditure which had been financed from internal resources. The CFR is estimated to be £14.2m at 31 March 2020, £15.2m at 31 March 2021 and £16.7 at 31 March 2022. Additional long-term borrowing is estimated at £2.5m for 2020/21 and £0.5m for 2021/22. 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 31.3.20:

	Actual*	Lower Limit	Upper Limit
Under 12 months	4.6%	0%	15%
12 months and within 24 months	4.8%	0%	15%
24 months and within 5 years	15.7%	0%	45%
5 years and within 10 years	31.3%	0%	75%
10 years and above	43.6%	0%	100%

* Actual is based on existing balances at 18.12.19

- **Upper Limits to the Total of Principal Funds Invested for Greater than 365 Days** – This limit is set with regard to the PCC's liquidity requirements. It is estimated that in 2020/21, the maximum level of PCC funds invested for periods greater than 365 days will be no more than £3.5m.

9. Prudential Code Indicators 2020/21, 2021/22, 2022/23

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:

	2020/21	2021/22	2022/23
	£m	£m	£m
Capital Expenditure Forecast	7.535	5.043	2.771

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		
2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
2.35%	2.34%	2.31%

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			
31/03/20 Estimate	31/03/21 Estimate	31/03/22 Estimate	31/03/23 Estimate
£36.947m	£37.524m	£38.496m	£37.620m

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 2020/21 and future years limits.

For 2020/21 this will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

As required by the Code, the PCC is asked to delegate authority to the Chief Finance Officer (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			
	2020/21	2021/22	2022/23
	£m	£m	£m
PWLB borrowing	9.704	9.847	9.441
Other long-term liabilities (PIC PFI)	22.302	21.846	21.352
Headroom	7.394	8.727	8.708
Total	39.400	40.421	39.501

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			
	2020/21	2021/22	2022/23
	£m	£m	£m
PWLB borrowing	9.704	9.847	9.441
Other long-term liabilities (PIC PFI)	22.302	21.846	21.352
Total	32.006	31.694	30.793

Appendix F

Capital Strategy

1. Introduction

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

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

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

2. Objectives

The key objectives of the Capital Strategy are to:

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

3. Governance

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

Project boards are initiated for all appropriate projects and are run on Prince 2 project models. These individual projects report into Portfolio Boards each with a Senior Responsible Officer. Reports from these boards are then taken to the Organisational

Board chaired by the Deputy Chief Constables of Suffolk and Norfolk (DCCs) and attended by each Head of Department.

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

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

4. Strategies and Plans

The PCC produces his Police and Crime Plan every four years. The current version covers the period 2017 to 2021.

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

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

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

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

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

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

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

5. Capital Budget Setting including evaluation and prioritisation

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

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

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

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

5.1 Identification and Prioritisation

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

The capital project proposals are prioritised with reference to a business case and considered against the following 8 factors in order of priority;

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

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

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

5.2 Evaluation

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

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

5.3 Collaboration and cost sharing

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

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

5.4 Implementation and Monitoring

Monitoring of the capital programme in year is undertaken monthly, using commitment information to understand the projected outturn of the programme. This view is then incorporated into the monthly revenue and capital monitoring reports that are presented to the Chief Constables and the Police and Crime Commissioners. These reports give

information about under or over-spends against the revenue and capital budgets, and consider the revenue implications of capital spending.

Progress on capital schemes is reported on a quarterly basis to a Capital Planning and Monitoring meeting that then reports into Organisational Board. The membership of the Capital meeting consists of CFOs, Finance practitioners, the Director of ICT, Head of Estates and the Head of Transport.

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

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

6. Capital Funding

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 6.1 to 6.4 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 their borrowing is prudent, affordable and sustainable. Unfunded long-life assets are therefore primarily financed using this method.

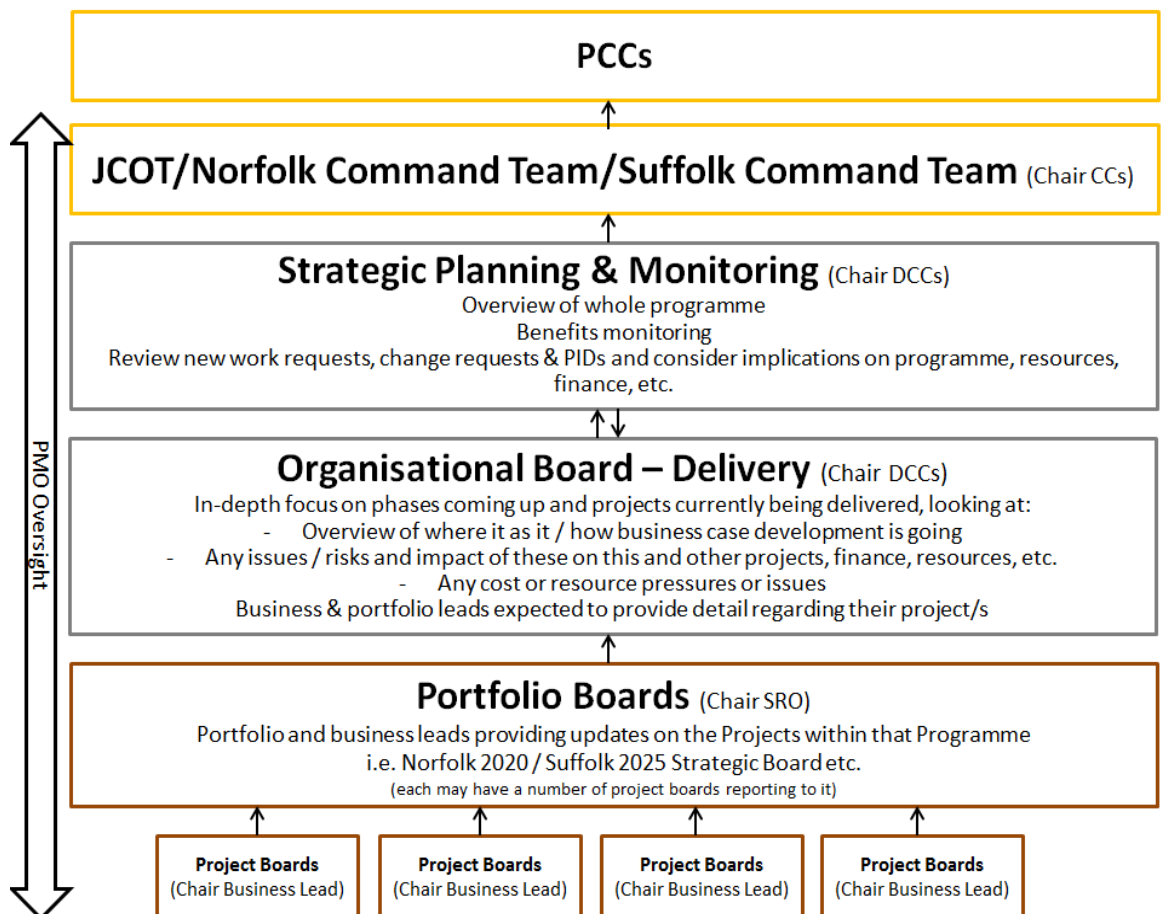
Historically external borrowing has principally been sourced from the Public Works Loans Board (PWLB), where finance is available on fixed or variable rates over varying terms and repayable on a maturity or an annuity basis. In October

2019 the Government took the decision to raise all PWLB borrowing rates by 100 basis points, there is currently no indication that this decision will be reversed in the short-term. The PWLB is therefore no longer the lender of choice.

The PCC is expected to source some new borrowing throughout the medium-term to finance capital expenditure. Finance officers will look to secure borrowing on the most economically advantageous terms. This may include borrowing from the newly formed Municipal Bond Agency or other local government bodies. Borrowing may be over the short to medium term to take advantage of lower borrowing rates, however, these decisions will need to be balanced, considering the risk that rates may rise during the borrowing term, meaning refinancing may result in a higher cost of borrowing over the longer term. If future borrowing is secured through the PWLB, the PCC is 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. Appendices

8.1 Governance model



Appendix G

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

1. It is important to consider the PCC's reserves at the same time as the budget to ensure that resources are available to fund spending at a level commensurate with the needs of the PCC and Constabulary. Forecasting cash flows and balances over the budget period ensures efficient and effective financial management and avoids unnecessary finance charges. Reserves are held for either general purposes (such as working capital or 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 £30m by the end of 2019-20.
11. In this MTFP robust detailed savings plans are in place for 2020-21. 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 has been increased to £4m (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. The **Budget Reserve** is forecast to be £1.4m at 31st March 2020. 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 £2.3m in the last 3 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 2019-20.
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 £0.426m 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 2020 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 2019/20 to 2023/24 APPENDIX 1

PROJECTION OF RESERVES LEVELS:										
	General	Budget	Change	Capital Financing and Efficiency Investment Reserve	Specified Purposes Fund	Regional Partnership reserve	Crime and Disorder Reduction Reserve	PCC Reserve	Total	Safecam Reserve
	£000	£000	£000	£000	£000		£000	£000	£000	£000
31/03/2019 Forecast	3,500	1,153	529	650	483	60	287	426	7,088	558
Proposed Changes 2019/20:										
Use of Reserves - Drug Wipes		(66)							(66)	
Use of specified purposes fund					(483)				(483)	
Use of capital financing reserve				(136)					(136)	
Contribution to Reserves		858		112					970	
PFI Refinancing				2,018					2,018	
7 Force Collaboration Contribution			(124)						(124)	
Reallocation of Reserves	500	(500)								
31/03/2020 Forecast	4,000	1,445	405	2,644	0	60	287	426	9,267	391
Proposed Changes 2020/21:										
Use of Reserves				(1,151)					(1,151)	
Civil Parking Enforcement			(190)						(190)	
7 Force Collaboration Contribution			(127)						(127)	
31/03/2021 Forecast	4,000	1,445	88	1,493	0	60	287	426	7,799	391
Proposed Changes 2021/22:										
Contribution to Reserves				1,132					1,132	
Reallocation of Reserves		(312)	312							
7 Force Collaboration Contribution			(130)						(130)	
31/03/2022 Forecast	4,000	1,133	270	2,624	0	60	287	426	8,800	391
Proposed Changes 2022/23:										
Contribution to Reserves				1,074					1,074	
7 Force Collaboration Contribution			(133)						(133)	
31/03/2023 Forecast	4,000	1,133	136	3,698	0	60	287	426	9,741	391
Proposed Changes 2023/24:										
Contribution to Reserves				141					141	
7 Force Collaboration Contribution			(137)						(137)	
31/03/2024 Forecast	4,000	1,133	(0)	3,839	0	60	287	426	9,745	391

FORECAST RESERVES AT 31/03/2020 ANALYSED BY HOME OFFICE CATEGORIES **APPENDIX 2**

Analysis of forecast reserves as at 31.03.2020 - SUFFOLK					
	Forecast Balance as at 31.3.20	Funding for projects & programmes over the period of the current MTFP	New contributions during the life of the MTFP	Funding for projects & programmes beyond 2023/24	General Contingency
	£m	£m		£m	£m
General Reserve	4.000	0.000		0.000	4.000
Earmarked Reserves:					
Budget Reserve	1.445	0.312		1.133	
Change Reserve	0.405	0.405			
Capital Financing Reserve	2.644	1.151	-2.346	3.839	
Specified Purposes Fund	0.000	0.000			
Regional Partnership Reserve	0.060	0.000			0.060
Crime & Disorder Reduction Reserve	0.287	0.000		0.287	
PCC Reserve	0.426	0.000			0.426
Total Earmarked Reserves	5.267	1.868	-2.346	5.259	0.486
Safety Camera Reserve	0.391	0.000	0.000	0.391	
Total Reserves	9.658	1.868	-2.346	5.650	4.486

Appendix H

Minimum Revenue Provision Policy and Statement 2020-21

Introduction

The PCC is required to make a charge against the revenue budget each year in respect of capital expenditure financed by borrowing (including internal 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.

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

Options for Making Prudent Provision

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

Option 1 - Regulatory Method

Authorities may continue to use the formulae put in place by the previous regulations.

Option 2 - Capital Financing Requirement Method (CFR)

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

Option 3 – Asset Life Method

This is to make provision over the estimated life of the asset for which the borrowing is undertaken. This could be done by:

- (a) Charging MRP in equal instalments over the life of the asset
- (b) MRP is the principal element for the year of the annuity required to repay over the asset's useful life the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during repayment period (e.g. by the application of capital receipts) should be made as necessary.

Option 4 - Depreciation

MRP is deemed to be equal to the provision required in accordance with 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.

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.

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.

MRP Policy

Before 1 April 2019 the option adopted for expenditure incurred after 1 April 2008 was Option 3(a) (Equal Instalment method). This method was deemed prudent whilst assets were primarily being internally financed.

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.

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

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

Recommendations

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

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

Appendix I

COUNCIL TAX and BUDGET OPTIONS 2020/21						
	1		2			
Options for Percentage Increase in Council Tax Bills:	1.98816%		4.69543%			
2020/21 Recommended Budget Summary:	£-p		£-p			
Operational costs before Savings	128,794,529.13		128,794,529.13			
Specific Grants (excluding Council Tax Freeze Grants)	(6,786,420.00)		(6,786,420.00)			
New Savings from 2019/20	(1,282,000.00)		(1,282,000.00)			
(Savings to be identified) / Surplus to be invested	-		-			
Known Changes	9,545,556.00		11,010,556.00			
Revenue Funding of Capital	2,846,420.00		2,846,420.00			
Appropriations to / from (-) Reserves	(1,467,633.84)		(1,467,441.36)			
Total Budget	131,650,451.29		133,115,643.77			
Budget financed by:						
Police Grant	44,248,836.00		44,248,836.00			
Ex-DCLG Formula Funding	24,560,440.00		24,560,440.00			
Operation Uplift Grant	0.00		0.00			
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	858,847.00		858,847.00			
CT Support Funding Allocation	4,890,930.00		4,890,930.00			
Council Tax Requirement (based on 254,374 taxbase)	55,196,548.29		56,661,740.77			
	131,650,451.29		133,115,643.77			
Council Tax Rate Bands 20/21 (& increase over 19/20):	Rate	Annual Increase	Rate	Annual Increase	Current Rate	
A	144.66	2.82	148.50	6.66	141.84	
B	168.77	3.29	173.25	7.77	165.48	
C	192.88	3.76	198.00	8.88	189.12	
D	216.99	4.23	222.75	9.99	212.76	
E	265.21	5.17	272.25	12.21	260.04	
F	313.43	6.11	321.75	14.43	307.32	
G	361.65	7.05	371.25	16.65	354.60	
H	433.98	8.46	445.50	19.98	425.52	