South Yorkshire Police and Crime Commissioner
Your Voice

Friday 16 February 2024

To: Members of the Public Accountability Board

This matter is being dealt with by: [redacted]
email:

Dear Colleague

Public Accountability Board

You are invited to the next Public Accountability Board which will be held on **Monday 26th February 2024** at **2.00 pm** and will be held at Office of the Police and Crime Commissioner, Carbrook House 5 Carbrook Hall Road Sheffield S9 2EH and via MS Teams.

The agenda and supporting papers are attached.

Yours sincerely

[redacted]

Dr Alan Billings
South Yorkshire Police and Crime Commissioner

Enc.

PUBLIC ACCOUNTABILITY BOARD

MONDAY 26TH FEBRUARY 2024

AGENDA

	Item		**Page**
1	Welcome and Apologies	Dr A Billings	Verbal Report
2	Filming Notification	Dr A Billings	Verbal Report
	This meeting is being filmed as part of our commitment to make Public Accountability Board meetings more accessible to the public and our other stakeholders. The meeting will be streamed live on our You Tube channel (SYPCC Media) and will be recorded and uploaded via You Tube to our website (https://southyorkshire-pcc.gov.uk/) where it can be viewed at a later date. The OPCC operates in accordance with the Data Protection Act. Data collected during the filming will be retained in accordance with the OPCC's published policy. Therefore by entering the meeting room, you are consenting to being filmed and to the possible use of those images and sound recordings for publication on our website and/or training purposes.		
3	Announcements	Dr A Billings	Verbal Report
4	Public Questions	Dr A Billings	Verbal Report
5	Urgent Items	Dr A Billings	Verbal Report
6	Declarations of Interest	Dr A Billings	Verbal Report
7	Budget and Council Tax Precept for 2024/25	S Abbott	5 - 16
7a	Appendix A - Police and Crime Plan precept setting letter		17 - 18
7b	Appendix B - Public Consultation Report		19 - 22
7c	Appendix C - Reserves Strategy		23 - 34

	Item		Page
7d	Appendix D - Capital Strategy		35 - 44
7e	Appendix E - Treasury Management		45 - 78
8	Any Other Business - to be notified at the beginning of the meeting		
9	Date and Time of Next Meeting 7 March 2024 at 10am		

This page is intentionally left blank

South Yorkshire Police and Crime Commissioner
Your Voice

PUBLIC ACCOUNTABILITY BOARD

26 February 2024

Report of the Chief Finance Officer

Budget and Council Tax Precept for 2024/25

1. PURPOSE OF REPORT

1.1 The Police and Crime Commissioner (PCC) is required to approve the 2024/25 budget and issue the Council Tax precept by 1 March 2024.

1.2 This report provides the recommendations of the Chief Finance Officer (CFO) in relation to the budget for consideration and approval by the PCC.

2. RECOMMENDATION

It is recommended that the PCC formally approves the following in accordance with the Local Government and Finance Act 1992:

(a) A budget requirement for 2024/25 of £347m, as set out in Section 9 of the report
(b) A proposed annual increase in the policing element of the Council Tax (the precept) for 2024/25 of £13 for a Band D property taking it to £251.04 for the year. This is an increase of 5.46%
(c) To note that most properties in South Yorkshire are in Bands A (57%) and B (17%) and C (12%) where the increase would be A 17p per week; B 19p, and C 22p
(d) The Reserves Strategy as set out in ***Appendix C***
(e) A Capital Strategy and Programme for 2024/25 of £18.0m as set out in ***Appendix D***
(f) The Treasury Management Strategy and Minimum Revenue Provision policy statement (***Appendix E***) and the recommendations contained therein
f) To note the Chief Finance Officer's statement on the robustness of estimates as set out in Section 10 of the report.

3. SUMMARY OF DECISION MAKING AND CONSULTATION

3.1 The proposals in this report will fulfil the PCC's duties under the Police Reform and Social Responsibility Act 2011 to set the budget, allocate assets and funds to the Chief Constable and propose the police element of the precept for the force area.

3.2 The 2024/25 budget priorities and precept increase proposed in this report have been previously consulted or debated and agreed with the following:

South Yorkshire Council Leaders	by letter
Police and Crime Panel Budget Familiarisation meeting	24 January 2024
Police & Crime Panel	5 February 2024

3.3 The Police & Crime Panel (PCP) unanimously agreed to support the proposed precept for 2024/25 at its meeting on 5 February 2022. The full response from the PCP is attached at ***Appendix A***.

3.4 The outcomes of consultation exercises with the public regarding the policing priorities and policing precept are attached at ***Appendix B***. 3,886 residents have engaged and expressed their views. The responses were positive, with 44% (1,727) of respondents saying that they would be willing to pay up to £13 more per year, and 35% (1,345) confirming that they would be willing to accept a rise in line with inflation.

4. INTRODUCTION

4.1 The current financial year has proved challenging for a variety of reasons. Things have changed considerably over the last few years, both politically and economically, which has resulted in a lot of uncertainty.

4.2 That said, with the support of partners, the force continues to deliver a strong service to the public, and one that is cognisant of the challenges to ongoing delivery for policing and partnership services.

4.3 As members may recall, in May 2021 the PCC appointed a new Chief Constable, following Chief Constable Stephen Watson's move to Greater Manchester Police. From 2016, Chief Constable Watson transformed SYP and improved its performance from a Force that 'Requires Improvement' in most areas, to one that is 'Good' in most areas and 'Outstanding' in its 'Ethical Leadership'. This good work has continued under the leadership of Chief Constable Lauren Poultney, with further improvements having been made.

4.4 Of the nine areas of delivery, His Majesties Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS), reported the Force to be outstanding in three of these areas, good in five and adequate in one:

Outstanding	Good	Adequate	Requires improvement	Inadequate
Preventing crime	Recording data about crime	Responding to the public		
Protecting vulnerable people	Investigating crime			
Good use of resources	Treatment of the public			
	Managing offenders			
	Developing a positive workplace			

5. POLICE AND CRIME PLAN

5.1 This is the key document that sets out policing priorities until the end of the PCC's term of office. Whilst keeping the same overall priorities – Protecting Vulnerable People, Tackling Crime and Anti-Social Behaviour and Treating People Fairly – the Plan also includes some underlying principles to:

- Put victims first
- Improve trust and confidence in the Police
- Demonstrate Value for Money
- Support Sustainability

5.2 There are some particular areas of focus under the priorities in the coming year, including:

- Violence against women and girls (VAWG)
- Drugs – and the gangs and serious violence associated with them
- Improving SYP's initial response to calls for service
- Ensuring better representation of the communities of SY – male/female, ethnic minorities

6. 2024/25 NATIONAL FUNDING SETTLEMENT

6.1 After the election, the PCC became the deputy portfolio lead for Finance for the Association of Police and Crime Commissioners, the lead being the Conservative PFCC for Essex. Throughout the year there has been considerable discussion with the Home Office to ensure that it understands the challenges faced in policing nationally, and a formal case was presented to articulate this, along with the impact on the financial position, prior to the provisional settlement.

6.2 The provisional settlement was in line with the spending review announcement. Key points to note are as follows:

a) The Home Office settlement continues to be for one year only, with 2024/25 being the last year of the CSR period.

b) The 2024/25 Home Office provisional settlement increased funding for policing by £843m when compared with the 2023/24 settlement. The core grant for South Yorkshire amounts to £261.5m, the expectation being that a further £93.6m will be raised through council tax. The total funding available is a 6.0% average increase nationally, with South Yorkshire being allocated an increase of 6.1% based on the funding formula.

c) PCCs are allowed to increase precepts by £13 on a Band D property (£15 in 2023/24). All government calculations assume that this increase will be levied.

d) In order to maintain the numbers of officers recruited through the national 20,000 officer uplift programme, the Home Office has ringfenced specific funding in 2024/25 – in South Yorkshire it amounts to £10.7m. This means South Yorkshire's 3,049 police officer target must be maintained, otherwise there will be funding reductions (the specifics of which were outlined in the settlement letter). Currently the force is comfortable maintaining these numbers and has taken an additional ten officers that will be funded at £48k per officer. There may be further recruitment opportunities throughout 2024/25.

e) £515 million of funding has been granted to support forces with the cost of the police officer pay award of which £185 million is additional to the funding provided in-year this financial year. South Yorkshire has been allocated an additional £4.7m in 2024/25. This is in addition to the £8.3m allocated for this purpose during 2023/24.

f) £259m has been provided nationally to cover the increased costs of police pensions contributions. Additional one-off top up funding of £26.8m has been provided for software development and administrative costs associated with the delays of the Mc Cloud remedy. This amounts to £6.2m for South Yorkshire.

g) The Home Office Special Grant allocation has been reduced by £16m overall. South Yorkshire relies heavily on the government's special grant allocation towards the cost of the three legacy issues. As a result, the Home Office contribution has reduced considerably from 2024/25 onwards, and the reduction will have to be made up locally (see section 9.5 below).

h) The serious crime funding for GRIP and anti-social behaviour are being merged into one grant. It is anticipated that there will be a £166k reduction in funding in this area.

i) The ten anti-social behaviour immediate justice pilots that were trialled last year are to be rolled out to each force area in October 2024. This will result in £0.5m part year additional funding in South Yorkshire.

j) There has been a reduction in the multi-year Safer Streets round 5 funding that was originally allocated to us in 2023/24. This £180k shortfall will be supported through the partnerships and commissioning reserve, a decision having been made earlier in the year, as partners were unable to commit to the project otherwise.

k) The council tax support and freeze grants (£10.8m) continue at 'flat cash' rates.

l) Violence Reduction Unit funding continues at the rates outlined previously.

m) There is no allocation for capital investment, so this must be funded locally.

n) The work on the national funding formula review continues but has slowed down. The original timetable has slipped, and consultation hasn't yet begun. There is also a focus on efficiency and productivity.

6.3 Whilst ensuring that the assumptions in the MTRS are as accurate as possible at this point in time, given the above, and the economic risks, there is uncertainty within the Medium Term Resource Strategy (MTRS).

7. BUDGET GAP

7.1 The net result is that even with the maximum allowable precept increase, there is still a significant budget gap in the medium term. Although there are £4.7m of savings built into the MTRS (£398k in 24/25) additional savings and some use of reserves will be needed to balance.

8. ASSESSMENT OF NEED

8.1 As part of the 2024/25 strategic planning and budget-setting process, the Chief Constable submitted her assessment of policing need in South Yorkshire.

8.2 The force is comfortable that the way it operates is fit for purpose and is the best model to meet the needs of the people of South Yorkshire, however this will continue to be monitored and will develop the way it works where necessary. In all districts and departments within the force, individuals are working towards an improved response in service delivery for the public and communities of South Yorkshire.

8.3 The force is now in a position where uplift capacity has been achieved. As this additional capacity starts to feed through into operational areas it provides the Senior Command Team with opportunities to review specific capabilities and distribution, so they best meet corporate priorities. It does need to be understood, however, that for the coming years a proportion of these 'uplift officers' will still be in training and will not be fully operationally competent.

8.4 Within the Force Control Room there has been significant work to accelerate the recruitment and training of new staff. The force has seen a reduction in the time taken to answer calls and a reduction in abandoned calls, supporting an improved service for the public.

8.5 Through the Right Care Right Person initiative opportunities have been provided for the force to reduce the incoming demands on the deployable policing resource, but more importantly provides a more streamlined and appropriate service for the public.

8.6 There are, however, multiple areas in which offending is predicted to increase, with increased demand specifically expected around vulnerability, the digital arena, economic crime and fraud, neighbourhood crime and illegal drugs. Coupled with financial constraints, developing technology, political change and the impact of national events, for example, issues around trust and confidence, it is vital to be able to plan and react appropriately.

8.7 In order to achieve this, core priority areas are response, and further development of the operating model to ensure that the right resources are in the right areas to support delivery, whilst continuing to focus on vulnerability and neighbourhood crime.

8.8 Investment in IT infrastructure and core systems is crucial to support the work of the Force and should also lead to improvements in efficiency and effectiveness. The development of the technology enabled change team is also necessary to meet the challenges of the future as well as to support specific IT systems implementation and benefits realisation.

8.9 South Yorkshire Police's (SYP's) approach will complement the work of partner organisations and service providers commissioned through the PCC's partnerships and commissioning budget, as identified in the Office of the Police and Crime Commissioner's assessment of need.

9. BUDGET SUMMARY AND PRECEPT PROPOSAL

9.1 The PCC's proposal to levy an annual increase in the precept equivalent to £13.00 per annum on a Band D property was agreed by the Police and Crime Panel on 5th February 2024. It is worth noting that, although in South Yorkshire 74% of properties are in Bands A or B (57% and 17% respectively), 33% of Band A households, and 16% of Band B households claim a reduction in council tax through council tax reduction schemes[1], and these people will be impacted to a lesser extent. The following table shows the proposed precept and weekly increase for each council tax band:

[1] Based on band D equivalents

	Proposed Precept 24/25	Weekly Increase	Properties in each band
	£	£	%
Band A	167.36	0.17	56.9
Band B	195.25	0.19	17.4
Band C	223.15	0.22	12.3
Band D	251.04	0.25	7.2
Band E	306.83	0.31	3.7
Band F	362.61	0.36	1.6
Band G	418.40	0.42	0.8
Band H	502.08	0.50	0.1
Total:			100.0

9.2 The proposed budget, based on the above factors, amounts to £347.0m. This includes the maintenance of police officer numbers on which government funding for SY is predicated.

With the changing demands and expectations on policing some growth has been necessary. This has been limited however to that which is absolutely essential to address a specific need, that which makes the most impact to the public, benefits the organisation or to enable compliance with legislative change.

9.3 **Savings**

Although the proposed 24/25 budget is in balance, over the MTRS period, even with the maximum precept increase, there will be a continuing need for annual savings of about £16.4m, which arise further towards the end of the MTRS period. This is on top of the £4.7m that is already built in. Through the strategic savings and efficiency board, and the priority based budgeting (PBB) process, work has already begun on identifying and implementing the savings required. These are aligned to changing needs and increasingly complex demands on the service and will result in improved efficiency and effectiveness. Tranche one has already been undertaken, and the implementation phase is about to begin. Work is beginning on tranche two. Only savings that are supported with firm implementation plans have been recognised in the MTRS. The expectation is that the Force will still be ambitious in its outlook but will need to balance that ambition against the ability to maintain existing service levels in the current financial climate.

9.4 **Capital Programme**

Despite having no government funding for capital projects, we have to have a programme which will allow us to provide the necessary estate, IT and vehicle infrastructure to enable the Force to work effectively. The proposed capital programme has been subject to challenge and scrutiny to ensure that only essential investment, aligned to strategic objectives, is included. The proposed programme includes significant replacement of existing assets, as well as investment in a new Doncaster police station, and is as follows:

	2024/25	2025/26	2026/27	2027/28	2028/29
Categories	**£000**	**£000**	**£000**	**£000**	**£000**
Land & Buildings	7,680	9,380	14,929	12,916	8,338
Vehicles	2,783	4,240	4,618	5,112	5,157
IT	8,922	7,619	2,037	2,288	9,394
Other Equipment	1,089	429	468	1,043	457
Slippage adjustment	0	-1,214	-533	53	0
Total Capital Programme	18,026	20,454	21,519	21,413	22,701

9.5 **Legacy Costs**

9.5.1 There are legacy costs arising from three issues:

- Civil claims against SYP as a result of the Hillsborough football disaster
- Civil claims against SYP as a result of non-recent child sexual exploitation (CSE) in Rotherham
- The National Crime Agency's on-going investigations into non-recent CSE.

9.5.2 Staff from the Office of the Police and Crime Commissioner (OPCC) have been liaising with Home Office officials throughout the budget preparation process. Whilst there had been some expectation of a reduction in legacy funding - £7.8m throughout the MTRS period - a letter from the Right Honourable Chris Philp MP, Minister of State for Crime, Policing and Fire has since confirmed that there will be further reductions in support from those anticipated.

9.5.3 These additional reductions amount to £6.6m throughout the MTRS period, resulting in £14.4m in total when taking into account those already included. The reductions are focussed around Operation Stovewood, the NCA investigation into historical child sexual abuse, and the associated civil claims. Support for civil claims arising from the Hillsborough disaster has decreased, but not as significantly.

9.5.4 The best estimate at the moment is therefore that the *total* legacy costs will be a further £86m by 2028/29, of which £30m will have to be funded locally. In 2024/25, the cost of legacy issues is anticipated to be £10.3m.

9.5.5 A decision was made some time ago that where possible legacy issues would be funded through reserves, to lessen any impact on the service provided to communities in South Yorkshire. Whilst this is still the strategy, the availability of reserves is reliant upon on the £13 precept being raised to cover the normal revenue expenditure associated with effective policing.

9.6 **Medium Term Resource Strategy**

The assumptions above produced the following proposed budget and MTRS for the CSR period:

MEDIUM TERM RESOURCE STRATEGY 2024/25-2028/29

	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
SY Police	353.7	356.3	363.7	375.4	387.3
SY OPCC	2.2	2.2	2.3	2.3	2.4
Commissioning and Partnerships	3.4	3.3	3.3	3.3	3.3
Capital Financing Costs	1.3	3.1	4.1	5.0	5.6
Legacy Costs (net)	10.3	11.1	8.5	0.0	0.0
External Funding	-23.9	-21.7	-21.7	-21.7	-21.8
Net Expenditure	347.0	354.3	360.2	364.3	376.8
Funding	-336.9	-342.0	-348.2	-354.3	-360.4
Use of Reserves	-10.1	-11.2	-8.5	-0.1	0.0
Net (surplus) or deficit	0.0	1.1	3.5	10.0	16.4

The impact of this position means that £10.1m is required from reserves to balance the budget in 2024/25, and a combination of savings and use of reserves amounting to £60.9m throughout the CSR MTRS period. This is not a sustainable approach, as the prudent minimum reserve balance could only be sustained until 2028/29.

9.7 Therefore, balancing the financial position to ensure recurrent financial balance in the medium to long term will require following:

- Achieving clarity around the level of grant funding to support 'Uplift' police officer numbers beyond 2024/25
- The conditions applied by the Home Office to maintaining those uplift numbers beyond 2024/25
- SYP's integrated planning to balance demand and growth pressures and the need for efficiency savings delivery throughout the MTRS period
- Continuation of the PBB process, and implementation of the plans arising from it
- The clarification and continuance of significant Legacy cost support from the Home Office,
- Clarity on any proposed funding formula changes
- Precept flexibility.

10. ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

10.1 Section 25 of the Local Government Act 2003, as amended by the Police Reform and Social Responsibility Act 2011, requires the Chief Finance Officer to report on the robustness of estimates used for the budget and the adequacy of reserves.

10.2 The revenue and capital budgets have been discussed and reviewed by the PCC and Chief Constable, and their respective senior leadership teams, through the Planning and Efficiency Group, in line with the strategic and financial planning process, in the months leading up to the Police and Crime Panel percept setting meeting on 5 February. The recommended 2024/25 precept increase has been shared with the four South Yorkshire local authorities and the South Yorkshire Mayor. An additional paper outlining the new developments around Home Office reductions in special grant support was also presented to the Police and Crime Panel.

10.3 The CFO can confirm that the figures included in the proposed budget are the best estimates based on the most up to date information available at the time of writing the report. Whilst the assumptions are subject to risk, they are considered to be prudent and realistic at this stage. That said, there are some uncertainties contained within the budget, the main ones being as follows:

(a) The Economy

There has been much uncertainty in the economy. General inflation is still volatile at present and the higher interest rates currently experienced make borrowing for capital investment more expensive. Pay inflation is subject to negotiation, and the impact on the budget is uncertain.

Assumptions have been made around forecast economic circumstances, based on information available from the Office of Budget Responsibility forecasts, and other expert advice. These factors are however challenging to predict and could cause unanticipated financial impact on the MTRS.

(b) The uplift grant is contingent upon maintaining the uplift in police numbers. The uplift grant is ringfenced, with funding for some additional officers taken in South Yorkshire now being included in the core grant. Other additional officer funding has been provided, but isn't mainstreamed, and therefore we don't have clarity around this funding for the future. These costs cannot be controlled by, say, reducing numbers or phasing them over more years. Not to accept the increase would invite a strong public and government response.

(c) Mayoral Transition

The PCC's functions will be transferring to the South Yorkshire Mayor in May 2024, just after the election. Work is going on between staff at the Office of the Police and Crime Commissioner, South Yorkshire Combined Authority and South Yorkshire Police to ensure a smooth transfer. No costs have been assumed in the Policing budget specifically for the transfer.

To support the efficiency and development of key business systems, such as payroll, SYP has invested in upgrading its Oracle system to be on an Enterprise Resource Planning (ERP) platform, utilising the Cloud rather than local hosting and storage. The project has been on hold since November 2023 to ensure that the Oracle build aligns to the strategic direction of all organisations. The direction of travel has now been confirmed through the laying of the transition order in parliament on February 7th. This is going through the parliamentary process. The Oracle project re-phasing will result in additional cost, which could affect either the capital or revenue budgets.

(d) Taxbase and collection fund balances

The final tax base and collection fund positions have not yet been formalised with the Local Authorities, due to Local Authority statutory finalisation dates being after the PCC's budget setting has been completed. The funding included in the budget has been based on the latest assessments by Local Authority staff but could be subject to change. This may impact on the funding outlined in the MTRS.

(e) It has been assumed that the outstanding issues around police pension costs will be covered by the government, but this is yet to be confirmed.

(f) Legacy costs have to be negotiated year-on-year with the Home Office; a reduction in the Home Office's funding proportion has been anticipated, however the actual percentage support to be given in future years hasn't yet been confirmed by the Home Office.

(g) Savings have been included in the MTRS, but more work is needed in this area. Further savings are being planned and are likely to be required in the future depending on the economy and future funding settlements.

(h) The outcome of the national funding formula review is not yet known. This, along with the police efficiency review recommendations could impact adversely on the budget due to the high proportion of grant funding that we currently receive. The programme is not progressing at speed however, and once finalised, transitional relief arrangements are likely.

(i) By the end of the MTRS period, based on current assumptions, reserves reduce to below the minimum advised by the Chief Finance Officer.

RESERVES POSITION

10.4 The precept increase of £13 for the year leaves the proposed budget position for 2024/25 with a £10.1m deficit which will need to come from reserves, with larger deficits projected in the future.

10.5 Reserves can only be used once and, given the range of pressures and risks that SYP face, in particular, having to cover £30m of the funding of historic Legacy costs, it is necessary to hold additional reserves.

10.6 The Reserves Strategy has been refreshed and is shown at Appendix C. This reflects the reserves position over the life of the MTRS to 2028/29, maintaining a level of general reserve at or above 5% of the net revenue budget until the end of 2027/28. As detailed in 9.3 above, this is the worst case scenario, assuming that required savings are not delivered and that reserves are used to maintain services in the medium to long term (three to five year period).

10.7 It is recognised that reliance on reserves to balance annual budgets and medium term financial plans is not a sustainable position and is only referred to here as a means of providing cover for the forecast financial position based on the estimates and assumptions outlined above, before the impact of the other measures in section 9.7 are quantified and approved.

10.8 Whilst some temporary drawdown of reserves is possible, there is a continuing risk to both the Force and the PCC until firm savings plans are in place. This is a complex area, with a need to balance savings against service provision. It is acknowledged that this work has already begun through both PBB and some separate savings and efficiencies work, and that processes are in place to identify the additional savings required, however the delivery of those savings in the medium term is crucial. The CFO strongly recommends that the current governance position in relation to savings plans identification and implementation continues, with regular progress reports being presented to the PCC in order to ensure that future year deficits are managed appropriately.

10.9 In summarising my advice, I would stress that the robustness of the estimates and adequacy of the reserves are satisfactory at the point of setting the budget but will be subject to ongoing monitoring and review.

11. CONCLUSION

11.1 It is recommended that the budget be approved and presented, along with the increase in precept of £13.00 on a Band D property. This will support:

- The development of the operating model, with specific investment in the areas of economic crime, digital crime, vulnerability and neighbourhood crime
- Investment in IT infrastructure and core IT systems
- Developing the technology enabled team, procurement and vetting teams
- The continuance of the savings programme

11.2 Despite the precept increase, there will still have to be significant savings delivery and/ or use of reserves in the medium to long term.

11.3 The outcomes of consultation exercises with the public regarding the policing priorities and policing precept are attached at ***Appendix B***. 3,886 residents have engaged and expressed their views. The responses were positive, with 44% (1,727) of respondents saying that they would be willing to pay up to £13 more per year, and 35% (1,345) confirming that they would be willing to accept a rise in line with inflation.

11.4 In summary, while it is recognised that many in South Yorkshire are facing a difficult time financially, the PCC and Chief Constable must also have regard for the need to keep everyone safe. SYP must recruit, train and maintain the full number of officers assumed in the police grant settlement: the public would expect nothing less. This budget will enable SYP to continue to continue with the progress that HMICFRS has recognised, so that the people of South Yorkshire may be kept safe in a period of continuing challenges.

Sophie Abbott
Chief Finance Officer
Office of the Police & Crime Commissioner for South Yorkshire.

Attachments:

Appendix A Police and Crime Panel precept setting letter
Appendix B Public consultation report
Appendix C Reserves Strategy
Appendix D Capital Strategy
Appendix E Treasury Management Strategy

This page is intentionally left blank

South Yorkshire
POLICE & CRIME PANEL

Our ref: JAGU/PCP/NW/AIS

Date: 6 February 2024

Sarah Norman
Chief Executive
Barnsley MBC
Church Street
Barnsley S70 2TA

Dr A Billings
Police and Crime Commissioner
South Yorkshire Police & Crime Commissioner's Office
Carbrook House
5 Carbrook Hall Road
SHEFFIELD
S9 2EH

This Matter is being dealt with by: [redacted]
Email:

Dear Dr Billings

Proposed Council Tax Precept and Revenue Budget for 2024/25

At the meeting of the Police and Crime Panel held on Monday 5 February 2024, Members voted unanimously to support the policing element of the Council Tax precept for 2024/25.

The recommendation in the report asked the Police and Crime Panel to consider and support a proposed annual increase in the policing element of the Council Tax (the precept) for 2024/25 of £13.00 for a Band D property, which would be an increase of 5.46%. The Panel noted that most properties in South Yorkshire are in Bands A (57%), and B (17%) and C (12%) where the increase would be A 17p per week, B 19p per week, and C 22p per week.

A recorded vote was taken and recorded as follows:-

For accepting the proposed increase in the policing element of the Council Tax precept for 2024/25 (10) Councillors Wright, Miskell, Hunt, Osborne, Haleem, Davison, Nottage, Mr Carratt, Miss Griffin and Mr Hindley.

Against the proposal (0). Abstained (0).

The proposal was approved.

Please find below the full list of resolutions from the draft minutes for completeness.

RESOLVED – That Members of the Police and Crime Panel:-

i) Voted unanimously to accept the proposed annual increase in the policing element of the Council Tax (the precept) for 2024/25 of £13 for a Band D property, which would be an increase of 5.46%.

ii) Noted that most properties in South Yorkshire are in Bands A (57%) and B (17%) and C (12%) where the increase would be A 17p per week, B 19p per week, and C 22p per week.

Yours sincerely

[redacted]

Cllr Neil Wright
Chair - South Yorkshire Police & Crime Panel

This page is intentionally left blank

Report of the Communications & Engagement Manager

CONSULTATION ON THE SETTING OF THE COUNCIL TAX PRECEPT 2024/25

1. PURPOSE OF REPORT

1.1 This report provides details of the consultation carried out with the public of South Yorkshire around the raising of the council tax precept for 2024/25.

2. BACKGROUND

2.1 The Police and Crime Commissioner (PCC) has a statutory duty to consult with the public and with rate payers to obtain their views before the precept is set.

2.2 The Government Spending Review and Autumn Statement, released in December 2023, announced that South Yorkshire Police will receive central core grant funding of £261.5m in 2024/25.

2.3 This central grant funding makes up 74% of the police budget. The other 26% (£93.6m) is expected to be funded by the council tax precept.

2.4 However, the £93.6m funded by the council tax precept will only be available if the PCC raises the precept by the full amount the government is allowing - £13pa based on a Band D property equivalent to a 5.46% rise for all households. If the precept is not raised by this amount, funding will be less.

2.5 Most households (around 74%) in South Yorkshire are Band A & B properties. The proposed 5.46% increase will equate to a rise precept rise of 17 pence per week on a Band A property and 19 pence per week on a Band B property.

3. INTRODUCTION

3.1 This is the second year that the Office of the Police and Crime Commissioner has undertaken the statutory consultation process alongside the consultation on policing priorities, rather than as two separate exercises.

3.2 This allows us to encourage participants to think about what they want their police force to focus on and then indicate if that was something they were willing to pay a little more for, through their council tax.

3.3 The consultation ran from 13 November 2023 until 7 January 2024 (eight weeks).

4. CONSULTATION & ENGAGEMENT METHODS AND FINDINGS

4.1 The consultation was conducted mainly online and was promoted through a range of promotions including repeatedly sharing across the PCC's social media sites and those of our partners (including SYP and local authorities). It was also sent direct to over 55,000 individuals who are signed up to the SYP Alerts system, to over 2,000 recipients of the PCC's weekly Blog, the OPCC's engagement contacts database and to the local media.

4.2 It was promoted at all of our face-to-face engagements and meetings during the consultation period, and we distributed contact cards with a QR code linking direct to the survey at all of these events and to many of our engagement contact groups and organisations. The QR code enabled the survey to be easily accessed from smart phones. Hard copies were also taken to meetings and events for those people who could not access it electronically.

4.3 This year, for the first time, we also collated a list of hyper-local publications, including village and parish council newsletters and asked them to include a short article and the QR code.

4.2 A total of 3,886 residents responded to the survey – our highest response to date. It was considerably higher than last year when 2,870 people responded and in. (In 2022 1,042 people responded to the precept survey and 791 responded to the policing priorities survey. In previous years both consultations averaged around 2,000 responses).

4.3 Of those responses there was a good spread across all four districts of South Yorkshire Sheffield (37% of respondents, Doncaster 23%, Rotherham 22% and Barnsley (18%). The majority of responses were from residents living in properties in bands A-E. The largest responses came from bands A (22% and band D 20%).

4.4 Overwhelmingly the respondents were in favour of paying a little more for policing in the coming year. Residents were asked to choose how much more they would be willing to pay.

- 1,727 (44%) said they would be willing to pay up to £15 more per year.
- 1,345 (35%) said they would be willing to pay a rise in line with inflation
- 814 (21%) said they would not want to pay any more.

4.5 The areas of policing that residents would like to see prioritised are:

- Dealing with neighbourhood crime (ASB, burglary, car theft and robbery)
- Visible patrolling and engaging with communities
- Tackling drugs
- Tackling child sexual exploitation
- Reducing violence

4.6 The areas where the public placed least priority were:

- Crowd control at football matches
- Providing police enquiry desks
- Taking action on speeding
- Dealing with off-road bikes
- Tackling hate crime

4.8 A further piece of work to analyse the responses in more detail, including over 1,400 free text comments is currently taking place and the results will be used to help shape the Police and Crime Plan for the coming year.

5. RECOMMENDATION

5.1 That views of the public are noted in the decision to set the Council Tax Precept at the recommended level.

Fiona Topliss
Communications & Engagement Manager
Office of the Police and Crime Commissioner

This page is intentionally left blank

RESERVES STRATEGY 2024/25

Introduction

1. The Reserves Strategy is published, annually, as part of the Police and Crime Commissioner's (PCC's) annual budget setting report. It sets out the latest position and the strategy regarding the use of reserves in future years.

2. It is a statutory requirement that the Chief Finance Officer (the CFO) presents a report to the PCC, as part of the budget approval process, which assesses the adequacy of reserves in the context of corporate and financial risks facing the PCC and the Chief Constable for South Yorkshire Police (SYP).

3. In 2018/19, the Minister for Policing, Fire and Criminal Justice and Victims called for greater transparency in how public money is used locally. This included guidance as to the information PCCs should publish in relation to reserves. Subsequently in September 2021, the formally named Ministry of Housing, Communities & Local Government had proposed changes to the reserves categories to acquire more clarity, so there is still a focus on this area now. Additional information is also included in accordance with the requirements of the CIPFA financial management code of practice.

4. This strategy has been produced in line with the relevant guidance. It provides information on the estimated level of reserves, both general and earmarked, balances currently held and explains how some of these will be applied over the medium term to help support the revenue budget and capital programme.

Background

5. Reserves may be used by the PCC for the annual budget and, over the longer term, as part of the overall Medium Term Resourcing Strategy (MTRS). There are a number of legislative safeguards in place that help prevent the PCC from over-committing financially. These include:

   - The requirement to set a balanced budget

     The requirement for PCCs to make arrangements for the proper administration of their financial affairs and the appointment of a CFO (Section 151 Officer) to take responsibility for the administration of those affairs
   - The CFO's duty to report on the robustness of estimates and the adequacy of reserves

- The requirements of the Prudential Code, Treasury Management in Public Services Code of Practice and the Financial Management Code of Practice.

6. This is reinforced by Section 25 of the Local Government Act 2003, as amended by the Police Reform and Social Responsibility Act 2011, which requires the CFO to report on the robustness of estimates used for the budget and the adequacy of reserves and to report to the PCC, Police and Crime Panel and the External Auditor if there is, or is likely to be, unlawful expenditure or an unbalanced budget. This would include situations where the PCC does not have sufficient resources to meet expenditure in a particular year or where reserves have become depleted. This report is contained in the PCC's annual budget setting report, approved at the Public Accountability Board (PAB).

7. There is no statutory guidance on the 'right' level of reserves. Guidance from CIPFA confirms that PCCs should, on the advice of their CFOs, make their own judgements on such matters, taking into account relevant local circumstances and an assessment of risk. In a House of Lords debate of the policing precept in January 2018, the Minister of State stated that '5% of the revenue budget is deemed a reasonable level of reserves'.

8. There is also a requirement for three-year revenue forecasts across the public sector. This is achieved through the MTRS. Within the Comprehensive Spending Review, the PCC receives confirmation of revenue and capital grants from government for one year. This provides limited ability to focus on the levels of reserves and application of balances and reserves in the future medium to long term.

9. CIPFA's Prudential Code requires a CFO to have full regard to affordability when making recommendations about a PCC's future capital programme. Considerations include the level of long-term revenue commitments. When considering affordability, the PCC is required to consider all of the resources available and estimated for the future, together with the totality of capital plans and revenue forecasts for the forthcoming year and future years as set out in the MTRS.

10. The PCC must retain adequate reserves so that unexpected demand-led pressures on budgets can be met without adverse impact on the achievement of the outcomes set out in the Police and Crime Plan. This will include known areas where financial implications are uncertain and more widely in respect of risks associated with assumptions of external support and income from Council Tax increases.

<u>Types of Reserves</u>

11. The PCC holds reserves which fall into two distinct categories:

- **General Reserves:** these are necessary to fund any day to day cash flow requirements and also to provide a contingency in the event of any unexpected events or emergencies.

- **Earmarked Reserves:** these have been created as a means of building up funds for specific purposes and involve funds being set aside to meet known or predicted future liabilities. By establishing such reserves, it will avoid liabilities being met from Council Tax or grant in the year that payments are made and impacting the revenue budget. See ***Appendix D*** for further details of the earmarked reserves held.

Reserves Strategy

12. The required level of reserves needs to be assessed against potential risks and uncertainty that the PCC and the Chief Constable face in 2024/25 and beyond. The Finance Settlement from Government in 2024/25 is for one year only despite the three year comprehensive spending review (CSR) period, which sets medium term police budgets and looks at how resources are allocated across police forces. Increases for maintenance of police officer numbers towards the government's national 'Uplift' target of 20,000 are also allocated annually, although some of this has now been mainstreamed. The ring fence is however still in place, despite the main uplift initiative having been completed. Multi-year section 31 grants are also impacted by annual decisions, and these present risks both financially and in terms of delivery should amounts change.

13. The factors that need to be considered will include the financial risks associated with:

- The deliverability of savings plans proposed to balance the revenue budget,
- The potential for additional demand led pressures and costs,
- Government funding to maintain the national Uplift programme numbers beyond the CSR period, or offset unforeseen or unbudgeted expenditure, and
- The nature of any historic events and potential liabilities arising from these events e.g. the legacy issues associated with the Hillsborough Disaster and cases of child sexual exploitation (CSE).

In general however reserves will not be utilised to fund day to day revenue expenditure, unless exceptional, and the use of reserves requires specific PCC approval through normal governance mechanisms.

14. The uncertainty surrounding the cost of the three legacy issues within South Yorkshire has led to the continuation of a separate 'legacy reserve'. This reserve is not generally available for other activity, and as there is no certainty around the Home Office funding in this area, it is specifically earmarked so the other reserves can be dedicated to supporting local investment and activity. Once depleted however, the use of earmarked then general reserves will have to be considered for legacy issues if necessary.

If necessary, other specific earmarked reserves will be made available for specific, risk related purposes. Adherence to specific grant or legislative conditions will be considered when establishing particular earmarked reserves.

15. It has been previously established by the CFO that General Reserves, where possible, should be maintained at a level of approximately 5% of the total net revenue budget. Other earmarked revenue reserves, if necessary, would be released to protect the level of general reserves as far as possible. The impact of this on the ability to fund potential future risks, will need to be assessed at the time.

Reserves Balances 2024/25

16. The balance as at 1 April 2023 for the total general and earmarked reserves was £73.1m. Of this, general reserves (£43.4m) were above 5% of the net revenue budget. The remaining reserves were all earmarked at £29.5m.

17. In line with the latest budget monitoring projections, it is forecast that the general fund will reduce by £9m in 23/24. This is largely due to additional ear marked reserves being required for legacy issues due to a reduction in Home Office funding that has recently been notified. It is anticipated that earmarked reserves will be increase by £10m, however there is still scope for this to change in the last quarter.

18. Projections for 2024/25 have been made in one with the MTRS assumptions, the main use of reserves being for legacy payments. The financial projections are based on the latest information from Legal Services. Earmarked reserves are projected to reduce by £10m in 2024/25, with £639k being added to the general fund balance.

Future Reserves Balances

19. There are significant risks and uncertainties that could affect the level and adequacy of reserves in the future, without further efficiencies and savings generated by SYP beyond those assumed in the MTRS to support future budgets in the medium term. These are outlined in the annual budget setting report alongside the robustness of estimates (S25) statement.

Impact of Legacy Costs

20. The level of Legacy costs, and uncertainty regarding central government funding support, are a significant risk to maintaining adequate levels of reserves in the future. Information has recently been received from the Minister for Policing, Crime and Fire that Home Office Special Grant support has reduced for 2024/25, and will continue to reduce annually, the reduction to be confirmed each year. The Legacy costs can be summarised as:

- Operation Stovewood: This is the work being undertaken by the National Crime Agency (NCA), with support from SYP, to investigate historic allegations of child sexual exploitation in Rotherham. In previous years, a significant percentage of these costs have been met by the Home Office through Special Grant funding. These costs have increased and will continue to 2026/27. Allowing for anticipated Home Office Special Grant under the current rules, the estimated net funding gap which South Yorkshire will have to resource is reflected in the 2024/25 budget and MTRS.

- Civil Claims: To assist budget setting, SYP's Legal Services team provided forecasts for 2024/25 and future years regarding Hillsborough and historic CSE-related civil claims. Allowing for anticipated newly communicated Home Office Special Grant, the estimated net funding gap which South Yorkshire will have to resource is also reflected in the 2024/25 budget and MTRS, but may be subject to timing differences.

21. The expected costs of legacy issues in 2024/25 and future years have been updated. Between 2024/25 and 2028/29 costs are expected to total £86m, with £56m of Special Grant receivable under the current rules. This leaves a funding gap of £30m to be met from the PCC's resources, mainly reserves. Due to the complexity of the issues, these costs can shift to later years depending on the pace of the Operation Stovewood investigations, or the progress of civil claims passing through the legal process. Future costs have now been projected over the next two years only for CSE Civil Claims and the next three years for Hillsborough Civil Claims, and these are included in the earmarked reserves.

22. There is ongoing dialogue with the Home Office to demonstrate the affordability impact on South Yorkshire and also to encourage the Home Office to move away from annual grant funding applications, recognising that these are complex issues with a financial impact over the next five years. The Home Office continues to review its funding on special grant year by year, and given the recent reductions in funding, and the intention to continue with that reduction in support, there is a significant risk associated with legacy issues and the outcome of any Special Grant funding applications to the Home Office. Access to Special Grant funding is not guaranteed. Any unsuccessful application for special funding could affect the level and adequacy of reserves. Therefore the overall level will be kept under review during 2024/25 as part of medium term planning and the monitoring of risks.

Medium Term Resource Strategy

The 2024/25 budget is projecting a small surplus (£185k) before legacy, and projects a shortfall of £1.18m in 2025/26. This annual deficit rises to £16.3m in 2028/29. This will require a combination of savings and/ or use of reserves. The MTRS position is as outlined in the table below.

MEDIUM TERM RESOURCE STRATEGY 2024/25-2028/29

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
SY Police	353.7	356.3	363.7	375.4	387.3
SY OPCC	2.2	2.2	2.3	2.3	2.4
Commissioning and Partnerships	3.4	3.3	3.3	3.3	3.3
Capital Financing Costs	1.3	3.1	4.1	5.0	5.6
Legacy Costs (net)	10.3	11.1	8.5	0.0	0.0
External Funding	-23.9	-21.7	-21.7	-21.7	-21.8
Net Expenditure	347.0	354.3	360.2	364.3	376.8
Funding	-336.9	-342.0	-348.2	-354.3	-360.4
Use of Reserves	-10.1	-11.2	-8.5	-0.1	0.0
Net (surplus) or deficit	0.0	1.1	3.5	10.0	16.4

Savings of £4.7m are included in the MTRS, but SYP will have to find recurrent savings of £16.4m to balance over the MTRS period (a total savings requirement of £60.9m over the life of the MTRS). Although there are some savings plans in place, only those with firm implementation plans have been included in the MTRS. This means that the above is the worst case scenario at this point in time, the savings moving up the MTRS to reduce the budget in future years once plans are firmed up.

The impact of this position means that 2024/25 requires the use of £10.1m from reserves to balance the budget, and a combination of savings and use of reserves amounting to £60.9m throughout the CSR MTRS period.

This is not a sustainable approach, as the prudent minimum reserve balance could only be sustained until 2027/28 and is referred to in the CFO comment on sustainability of reserves in the main budget report.

The 2024/25 budget report states that balancing the medium to longer term financial position to ensure recurrent financial balance will require following:

- Achieving clarity around the level of grant funding to support 'Uplift' police officer numbers beyond 2024/25
- The conditions applied by the Home Office to maintaining those uplift numbers beyond 2024/25
- SYP's integrated planning to balance demand and growth pressures and the need for efficiency savings delivery throughout the MTRS period
- Continuation of the PBB process, and implementation of the plans arising from it
- The clarification and continuance of significant Legacy cost support from the Home Office,
- Clarity on any proposed funding formula changes
- Precept flexibility.

Whilst some temporary drawdown of reserves is possible, there is a continuing risk to both the Force and the PCC until firm savings plans are in place. This is a complex area, with a need to balance savings against service provision. It is acknowledged that this work has already begun, and that processes are in place to identify the additional savings required, however the delivery of those savings in the medium term is crucial. The CFO strongly recommends that the current governance position in relation to savings plans continues, and that associated delivery progress be reported to the PCC on a regular basis in order to ensure that future year deficits are addressed.

Summary and Conclusion

23. Unlike general reserves, earmarked reserves have been identified for specific areas of expenditure where there are anticipated costs that can only be estimated. It is therefore prudent for the PCC to identify such areas and set aside amounts that limit future risk. Attached is a summary showing the movement of the reserves over the medium term.

24. The future forecast of reserves is based on the 2024/25 MTRS, proposed for approval by the PCC in February 2024. The strategy has assumed that in order to retain general reserves at 5%, or in a positive balance, all available earmarked reserves (except for the insurance reserve) will be released first to support the general reserve.

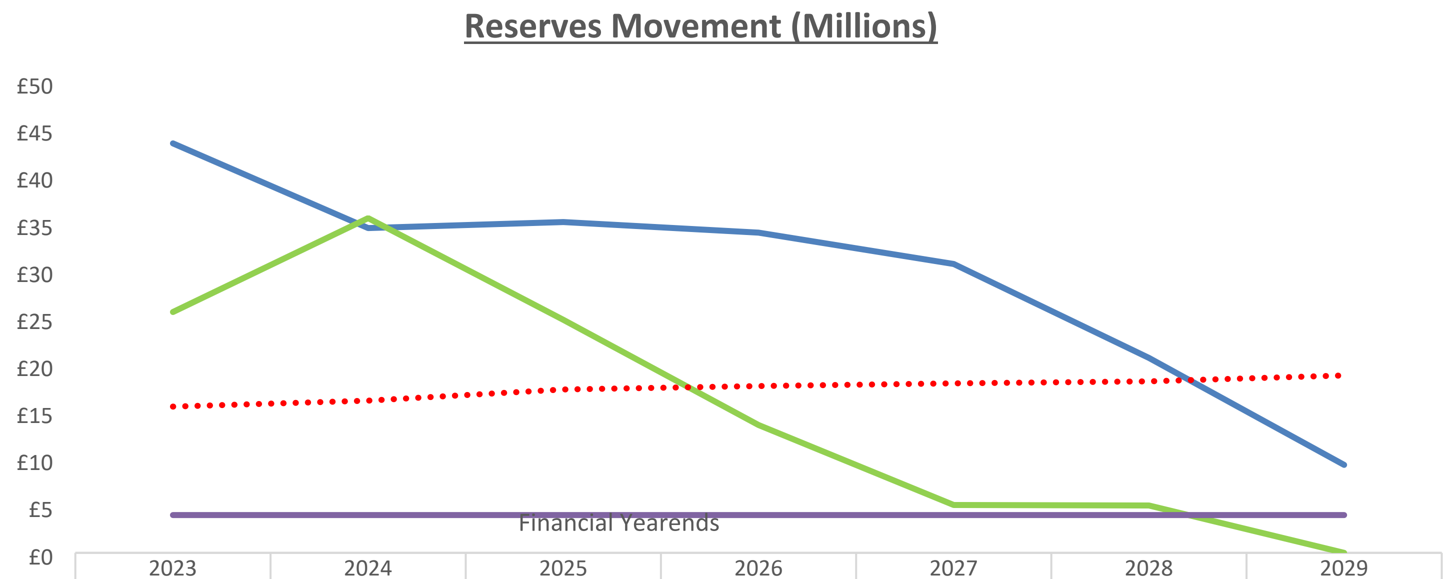
25. There will be an associated opportunity cost in terms of constraining investment in service transformation. Additionally, to maintain the general reserves to 5%, significant revenue savings delivery will be required, potentially impacting on the policing service in South Yorkshire. Hence dialogue remains open with the Home Office regarding government funding to support legacy costs.

26. This strategy is reviewed annually with the PCC. During the year changes may occur in the MTRS, which may affect this strategy. Such changes will be monitored by the CFO and reported to the PCC appropriately.

Sophie Abbott

Chief Finance and Commissioning Officer

Reserves Forecast 2024/25 to 2028/29.



	2023	2024	2025	2026	2027	2028	2029
General Reserve	£43.5	£34.5	£35.1	£34.0	£30.7	£20.7	£9.3
Earmarked Reserves	£25.6	£35.6	£24.8	£13.6	£5.1	£5.0	£-
Prudential Reserves Level	£15.5	£16.2	£17.4	£17.7	£18.0	£18.2	£18.8
Insurance Reserve	£4.0	£4.0	£4.0	£4.0	£4.0	£4.0	£4.0

South Yorkshire Police & Crime Commissioner - Proposed Budget 2024/25

Reserves Forecast (Including Insurance Provision)

(Millions)	31.3.23	Forecast Movement	31.3.24	Forecast Movement	31.3.25	Forecast Movement	31.3.26	Forecast Movement	31.3.27	Forecast Movement	31.3.28	Forecast Movement	31.3.29
General Fund Reserve	£ 43.5	-£9.00	£ 34.5	£0.64	£ 35.1	-£1.12	£ 34.0	-£3.33	£ 30.7	-£9.98	£ 20.7	-£11.36	£ 9.3
Earmarked Reserves	£ 25.6	£9.97	£ 35.6	-£10.80	£ 24.8	-£11.17	£ 13.6	-£8.50	£ 5.1	-£0.05	£ 5.0	-£5.03	£ -
Insurance Reserve	£ 4.0	£0.00	£ 4.0	£0.00	£ 4.0	£0.00	£ 4.0	£0.00	£ 4.0	£0.00	£ 4.0	£0.00	£ 4.0
Total Reserves	**£ 73.1**	**£0.98**	**£74.06**	**-£10.16**	**£63.90**	**-£12.30**	**£51.60**	**-£11.83**	**£39.78**	**-£10.03**	**£ 29.7**	**-£16.39**	**£ 13.4**
5% min General Fund Reserve	**£ 15.5**		**£ 16.2**		**£ 17.4**		**£ 17.7**		**£ 18.0**		**£ 18.2**		**£ 18.8**

Note: Regular discussions take place with the Home Office and Minister for Policing, Crime and Fire regarding affordability and impact for South Yorkshire of the current Special Grant rules.

Earmarked Reserves

Home Office Category	Earmarked Reserve	Description/Use
Funding for planned expenditure over the period of the current medium term financial planning	Council Tax Support Reserve	This reserve is for any external grant from the Government in regards to Council Tax Support.
	Legacy Reserve	This reserve has been set aside from underspends on legacy costs to fund future potential liabilities in relation to Hillsborough and CSE.
	Devolved Reserve	As part of the devolved financial management arrangements, budget holders are allowed to carry forward underspends up to approved limits to fund expenditure in future years.
	Invest to Save Reserve	To assist with up front investment into projects that will deliver savings in the medium to long term.
	PCC Commissioning Reserve	This reserve is for any underspends on the PCC's Commissioning Budget. It will be carried forward to use in future years for both revenue and capital spend within approved limits. Also, used to underwrite

		risk on commissioned services where the funding period does not cover the full contract length.
	POCA Reserve	There are two POCA reserves – one for the PCC and one for the Chief Constable. The reserves will be made up from unused POCA income, to smooth expenditure and support local POCA related initiatives and commissioning.
Funding for specific expenditure beyond the current planning period	Revenue Grant Reserve	This reserve is for any external grant that has not been used in year, to allow it to be carried forward to fund future activity associated with the grant in forthcoming years.
	Safety Camera Partnership Reserve	This reserve is for any external grant that has not been used in year, to allow it to be carried forward to fund future activity associated with the grant in forthcoming years.

As a general contingency/resource to meet other expenditure needs held in accordance with sound principles of good financial management	Insurance Reserve	This represents sums set aside to fund potential liabilities under the current insurance arrangements. This reserve is subject to periodic actuarial review.
	Redundancy Reserve	This reserve is set aside to cover any future redundancy liabilities in relation to the Local Criminal Justice Board's (LCJB) Business Manager. The LCJB is funded by the PCC and external partners.

Item 7d

CAPITAL STRATEGY

Updated for the budget 2024/25 - 2028/29

Capital Strategy

1. Introduction

1.1 The Capital Strategy is an integral part of the Police and Crime Commissioner's (PCC's) strategic planning and governance. It summarises how the PCC's capital investment and financing decisions are aligned with the aims of the Police and Crime Plan and the Medium Term Resources Strategy (MTRS) over a five year planning timeframe to 2028/29.

1.2 The Strategy will reinforce the holistic approach taken by the PCC and the South Yorkshire Police Force (SYP) in taking a longer term view of demand and need and closely aligning strategic planning to improve outcomes for the people of South Yorkshire.

1.3 The approach to planning includes ensuring the MTRS, Reserves Strategy, VFM Strategy and Capital Strategy all support the delivery of the aims of the Police and Crime Plan. Collaboration is a feature of the Capital Strategy, with the two components of the capital programme – IT and fleet – working with either South Yorkshire Fire and Rescue Services (SYFR), or with neighbouring police forces, to maximise the efficiency and effectiveness of services wherever possible.

1.4 This is a higher level strategy. It sets the framework for the more detailed Treasury Management Strategy, which covers investment and borrowing approaches. This strategy concludes with a summary of expected capital expenditure to 2028/29, with the capital financing requirement and Minimum Revenue Provision policy over the same planning horizon.

1.5 It should be noted however that a statutory instrument has now been laid to transfer the PCC's functions to the South Yorkshire Mayor in May 2024, just after the election. This is going through the parliamentary process. Although this strategy outlines the current position, it may be subject to change once the transfer has taken place.

2. Background

2.1 CIPFA's revised Treasury Management and Prudential Codes requires the PCC to prepare a capital strategy for 2024/25, covering 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, and
- the implications for future financial sustainability.

2.2 The aim of this capital strategy is to ensure the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite are documented and understood by all the PCC's stakeholders.

2.3 The capital strategy includes capital expenditure, capital financing and aligns with the treasury management strategy, with a long term timeframe to 2028/29 and beyond.

2.4 The proposed capital strategy is sustainable, affordable and prudent in the long term, and necessary for the operational stability and capability of the Force. A fundamental priority is to develop further our ability to demonstrate value for money for South Yorkshire residents and the broader taxpayer and this will include capital programmes.

2.5 The PCC's capital expenditure plans are the key driver of the treasury management strategy. The outputs and impacts of capital expenditure plans are reflected in the prudential indicators within the Treasury Management Strategy, are an indicator of risk involved in capital investment.

2.6 Capital risk is also managed in a number of ways – through the general risk management processes in the Force and OPCC, through internal update and monitoring meetings, and through formal reporting at a number of boards (Capital Management Board, Strategic Change Board, Strategic Estates Board, Planning and Efficiency Group, Public Accountability Board, collaboration boards, and the Joint Independent Audit Committee).

2.7 In terms of long term financial sustainability, there are significant gaps in the financing of the MTRS in the medium to long term, and significant savings and/ or use of reserves is required. Capital investment, where borrowing is required, adds cost into the revenue account. To ensure that capital expenditure is prioritised in line with strategic plans and objectives all capital investment is considered as part of the strategic and financial planning process, each scheme being considered separately and considered against other plans and priorities.

2.8 The PCC and Force follow the CIPFA treasury management code guidance and the prudential code.

3. The Capital Strategy

3.1 The Capital Strategy builds on three key underlying strategies which set out how our key assets such as buildings, vehicles and IT systems are designed, managed and utilised to deliver the most effective services. For instance, are the buildings we use in the right locations and of the right configuration to support the increased presence of neighbourhood-based police officers, with the right IT equipment and information systems to enable more time for officers to be visible in neighbourhoods, rather than completing paperwork at a desk, and with the most efficient and fit for purpose fleet of vehicles utilised.

3.2 Collaborative approaches, good governance, value for money and effective procurement arrangements exist for each component strategy, with clear links to demonstrate how they support delivery of the PCC's and SYP's strategic and operational plans.

3.3 Following the SYP assessment of need exercise, a capital programme has been prepared from Asset Management Plans, Senior Command Team (SCT) decision papers and business cases that have been progressed through Strategic Boards and the strategic and financial planning process, aligned to strategic priorities. The capital programme includes ongoing schemes and new schemes requiring approval. All new schemes require a capital scheme brief or business case that is generally progressed through the Capital Management Board (CMB) prior to the scheme commencing. CMB brings scrutiny and challenge prior to the submission to SCT for approval and then on to the PCC for a final decision where this is greater than £250k. Further work has also been undertaken jointly to improve capital processes by the PCC's CFO, the Force CFO and the Director of Resources. Work in this area is continuing.

3.4 Estates Strategy

The current SYP Estates Strategy 2021 – 2026 was prepared by the Head of Estates and Facilities and approved at the PCC's Estates Board in December 2021. The strategy is in the process of being refreshed, the fundamental principles remaining the same. The strategy details the ideologies by which the estate will be managed to ensure that it is fit for purpose, well maintained, and appropriately located buildings are available to support the policing of South Yorkshire with the three key principles:

a) Enabling frontline policing delivery
b) Maintaining a well-managed, integrated estate
c) Driving efficiency and effectiveness through transformation

These support the priorities encapsulated in the PCC's Police and Crime Plan and in force priorities too, enabling the efficient and effective delivery of policing and crime services wherever and however they are needed. The Strategy and Delivery Plan is facilitated by a strengthened and increasingly professionalised Estates and Facilities team.

The Delivery Plan is formed from existing agreed programmes, from emerging requirements due to nationally changing priorities and from the annual business planning process. The programmes also include projects to support local policing initiatives, major schemes borne out of condition surveys and designed to improve resilience and efficiency in the estate for the future. Repurposing of buildings to reflect changing needs and other minor schemes of work, forming part of the day-to-day management of the estate alongside a robust programme of planned maintenance.

As well as significant buildings maintenance work, major schemes in the current Delivery Plan include:

- Doncaster Police Station & Custody Suite
- Custody upgrade
- Digital Forensics Unit
- CCTV and security work
- Force Archive facility

3.5 IT Strategy

South Yorkshire Police has a joint IT Service shared with Humberside Police Force. The ‘Information Technology Strategy 2020-2025+’ has been created in response to a changing environment in which the forces are increasingly depending on efficient IT services to meet the needs of the public they serve within Humberside and South Yorkshire Policing areas. A new Target Operating Model (TOM) is being determined, aligned to the IT Strategy in order to drive the businesses forward over the coming years. A number of options are being considered about the best way of working in the future. The shared IT Strategy is designed to deliver five strategic objectives, namely to:

- Stabilise the current infrastructure platforms and when due for replacement procure with Industry Standard technologies.
- Reorganise the department to align with the business objectives.
- Provide flexible, cost efficient technology solutions to meet the changing needs of the businesses we serve.
- Deliver Digital Solutions to provide innovation in order to support business requirements.
- Provide secure systems and technologies that reduce IT vulnerabilities and risk to comply with the mandating of the ITHC security standards.

The strategy outlines the way in which IT investment will be evaluated, and includes, along with cost/ benefit analysis, consideration of value, strategy alignment, flexibility, creativity and innovation, risk and sustainability.

The following key activities are included (amongst others) in the capital programme stemming from strategy:

- Body worn video
- PC replacement
- Upgraded IT back up solutions
- Oracle Cloud

3.6 Fleet Strategy

The 10-year Joint Vehicle Fleet Management Strategy is in place to provide a focus for the activities of the department, in support of the wider organisational priorities of both SYP and SYFR. The strategy outlines how it’s ensured that vehicles and associated equipment are procured, maintained and disposed of, whilst meeting operational needs and the needs of communities. Advances in technology and the road to Net Zero are key considerations, along with the impacts of Brexit and the pandemic, during a time when the number of Police Officers are being uplifted nationally. Plans are centred on increasing the in-house provision and ability to meet demand in a more cost-effective manner, through training, income generation and the management of data.

4. Governance

4.1 Capital investment planning is undertaken as part of the service strategic and financial planning process, where the need for capital investment is considered along with need, demand, impact, affordability (both the capital and revenue aspects), sustainability and risk. The capital programme is examined in detail during the process, and prioritised and phased in line with the above considerations. The final programme revenue costs are reflected in the MTRS.

4.2 Governance of the capital programme follows Financial Regulations and Financial Instructions, to ensure available resources are allocated to deliver value for money.

4.3 The PCC's Public Accountability Board (PAB) has ultimate responsibility for approving the capital strategy for investment and the multi-year capital programme. At PAB, the PCC will also approve any forecasted changes to the capital programme, in line with Financial Regulations.

4.4 The joint Planning and Efficiency Group (PEG) between the PCC and Chief Constable reviews strategic and financial planning, including the development of the capital programme.

4.5 Specific investment business cases are reviewed at the Chief Constable's Strategic Change Board. In developing the proposed capital programme, SYP's Strategic Resources Board will further consider the business cases as Capital Scheme Briefs prior to inclusion in the draft capital programme proposed by the Chief Constable for approval by the PCC. This will usually be considered alongside an updated Police and Crime Plan and MTRS.

4.6 The Estates Board (chaired by the PCC) and respective joint collaboration boards for IT and Fleet will provide oversight to the development and evaluation of individual business cases and broader, longer term programmes that support strategic priorities prior to their submission for approval by the PCC.

4.7 The Treasury Management Strategy that supports the Capital Strategy will be considered by the Joint Independent Audit Committee (JIAC).

5. Capital Expenditure 2024/5 to 2028/29

5.1 The tables below summarise the capital expenditure plans over the life of the Medium Term Resources Strategy and how these plans are expected to be financed. Any shortfall of resources results in a funding borrowing need. Forecasts of capital receipts have been made, and financing arrangements will be adjusted as/when disposals are completed and the disposal proceeds are received. More detailed information around the financing of the capital programme, and associated risks can be found in the Treasury Management Strategy.

	2024/25	2025/26	2026/27	2027/28	2028/29
Categories	**£000**	**£000**	**£000**	**£000**	**£000**
Land & Buildings	7,680	9,380	14,929	12,916	8,338
Vehicles	2,782	4,240	4,618	5,112	5,157
IT	8,922	7,619	2,037	2,287	9,394
Other Equipment	1,089	429	468	1,043	457
Slippage adjustment	0	-1,214	-533	53	0
Total Capital Programme	**18,025**	**20,454**	**21,519**	**21,412**	**22,701**

Capital Budget	Forecast 2024/25 £000	Forecast 2025/26 £000	Forecast 2026/27 £000	Forecast 2027/28 £000	Forecast 2028/29 £000
External Grants	0	0	0	0	0
Capital Receipts	3,658	300	300	300	300
Specific/Grants	0	0	0	0	0
Revenue Contribution	0	0	0	0	0
Contribution from Capital Reserves	0	0	0	0	0
Borrowing (financing need)	14,367	20,154	21,219	21,112	22,401
Overall Total	**18,025**	**20,454**	**21,519**	**21,412**	**22,701**

5.2 Other long-term liabilities - The above financing need excludes other long-term liabilities, such as leasing arrangements that already include borrowing instruments.

5.3 The introduction of the anticipated IFRS16 following its delay due to the pandemic may have an impact on existing assets/leases that have a material effect on the balance sheet is being conducted. The requirement for inclusion in the closing of the accounts has been deferred again, and begins in 2024/25. This will be reflected in next year's Treasury Management Strategy.

6. Borrowing Need (the Capital Financing Requirement)

6.1 The second prudential indicator is the PCC's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the PCC's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

6.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge, which reduces the borrowing need broadly in line with asset use.

6.3 The CFR includes any other long-term liabilities (e.g. leases). Whilst these increase the CFR, and therefore the PCC's borrowing requirement, these types of scheme include a borrowing facility so the PCC is not required to separately borrow for these schemes. The PCC currently has no other long term liabilities.

6.4 The CFR projections are set out below:

	2023/24 Estimate £000	2024/25 Estimate £001	2025/26 Estimate £002	2026/27 Estimate £003	2027/28 Estimate £004
Opening CFR	96,772	115,075	128,533	147,733	167,896
Closing CFR	115,075	128,533	147,733	167,896	187,823
Movement in CFR	**18,303**	**13,458**	**19,200**	**20,163**	**19,927**

Movement in the CFR represented by:

Net financing need for the year (above)	19,229	14,367	20,154	21,219	21,113
Less MRP/VRP and other financing movements	-926	-909	-954	-1,056	-1,186
Movement in CFR	**18,303**	**13,458**	**19,200**	**20,163**	**19,927**

** Note there may be slight variances due to roundings.*

7. Minimum Revenue Provision (MRP) Policy Statement

7.1 The PCC is required to pay off an element of the accumulated capital expenditure each year (the CFR) through a revenue charge (MRP), although he is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

7.2 Department for Levelling Up, Housing and Communities (DLUHC) has issued regulations which require the PCC to approve **an MRP Statement** in advance of each year. A variety of options is available to the PCC, as long as the provision is prudent.

7.3 The policy was last amended in 2019/20. A review of the options has been undertaken recently and it is recommended that the MRP Statement for 2024/25 does not change, and is as follows:

MRP POLICY STATEMENT 2023/24

a. For capital expenditure incurred before 1 April 2008 or which in the future will be supported capital expenditure, the MRP policy will be:

Existing practice

MRP will follow the existing practice outlined in the DLUHC regulations (option one), which provides for an approximate 4% reduction in the borrowing need (CFR) each year.

b. From 1 April 2008 for all unsupported borrowing (including leases) the MRP policy from 2019/20 will be*:*

Asset life method

MRP will be based on the estimated life of the assets, in accordance with the regulations (option three), whereby the annuity method has been adopted.

This page is intentionally left blank

APPENDIX E

TREASURY MANAGEMENT STRATEGY

REPORT OF CHIEF FINANCE OFFICER

PURPOSE OF REPORT

1. To allow the PCC to scrutinise the following documents in relation to 2024/25, and if satisfied, to approve the Treasury Management Strategy. The documents below have been updated to reflect the approved 2024/25 budget and the recent changes to the CIPFA Treasury Management and Prudential codes. It is intended to present the finalised document at the next Joint Independent Audit Committee (JIAC) meeting.

   - CIPFA Treasury Management Code and Prudential Code codes implications (**Annex A**)
   - Treasury Management Policy Statement 2024/25 (**Annex B**)
   - Treasury Management Strategy Statement 2024/25 (**Annex C**)
   - Borrowing Strategy (**Annex D**)
   - Investment Strategy 2024/25 (**Annex E**)
   - Prudential Indicators 2024/25 (**Annex F**)
   - Minimum Revenue Provision (MRP) calculation policy 2024/25 (**Annex G**)
   - Treasury Management Practices 2024/25 (**Annex H**)
   - Detailed Economic Commentary (**Annex I**)

KEY INFORMATION

2. It should be noted that the Chartered Institute of Public Finance and Accountancy (CIPFA) published updated Treasury Management and Prudential Codes on 20th December 2021, they stated that there would be a soft introduction of the codes with PCC's, with full implementation required for 2023/24. A brief outline of the requirements of the codes is provided in **Annex A** for information.

3. The proposed Treasury Management Policy Statement for 2024/25 is shown at **Annex B** and covers the definition of treasury management activities and the key principles underpinning them. The definition includes the investment of surplus cash and the sourcing of external borrowing. The PCC's average daily cash surplus is made up of the amounts held in balances, reserves and provisions, usable capital receipts, unapplied capital grants and temporary cash flow surpluses.

4. The proposed treasury management strategy statement for 2024/25 is attached at **Annex C**. This continues to focus on economy and stability, to achieve the lowest net interest rate costs recognising the risk management implications, and protect the annual revenue budget from short term fluctuations on interest rates.

The CIPFA Prudential Code for Capital Finance in Local Authorities provides the formal guidance for the manner in which capital spending plans are to be considered and approved, and this strategy complies with the recommendations contained within the code.

5. Guidance from The Department of Levelling Up, Housing and Communities (DLUHC) requires the PCC to set an annual investment strategy. The proposed strategy is set out at **Annex E** and has as its primary principle the security of investments.

   The criterion for choosing counterparties provides a sound approach to investment in "normal" market circumstances. Whilst the PCC is asked to approve this base criteria, under exceptional market conditions the PCC's Chief Finance Officer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly, the time periods for investments may be restricted.

6. Prudential Indicators in respect of capital expenditure, external debt and treasury management activity are included at **Annex F**. This includes the Authorised Limit for external borrowing required under section 3(1) of the Local Government Act 2003.

7. DLUHC has also issued statutory guidance setting out options for the way MRP may be calculated. Further background to the guidance and the policy is set out at **Annex G**.

8. The latest guidance from CIPFA recommends that detailed scrutiny of Treasury Management proposals is undertaken prior to approval, with a view to informing and expediting the formal consideration by the PCC.

9. One of the cornerstones of effective treasury management is the preparation and implementation of suitable Treasury Management Practices (TMPs), which set out the manner in which the organisation will seek to achieve the treasury management policies and objectives and prescribe how it will manage and control those activities. A summary of the Treasury Management Practices relevant to the PCC is attached at **Annex H**. Detailed schedules are being updated in consultation with our treasury management service providers which specify the systems and routines that are employed and the records that are maintained.

10. Attention is drawn to the fact that under the Police and Social Reform Act 2011 the PCC continues to have responsibility for the Treasury Management activity of the South Yorkshire Police Group.

11. The UK is currently rated as AA- but is still an approved country for investments. However, there are other countries (see table below for the list as at 11.1.24) which have higher sovereign ratings than the UK (based on the lowest ratings from the agencies Fitch, Moody's and S&P) and have banks operating in sterling markets which have credit ratings of green or above in the Link Assets Services Treasury Solutions credit worthiness service.

	AA+	AA
1. Australia 2. Denmark 3. Germany 4. Netherlands 5. Norway 6. Singapore 7. Sweden 8. Switzerland	9. Canada 10. Finland 11. U.S.A.	12. Abu Dhabi (UAE)

The strategy to invest with countries with ratings of AAA, AA+ and AA from the lowest of rating agencies outlined above is still in place, provided they are also rated as green, or above, through Link Asset Services Treasury Solutions. Any investment outside of the UK must be agreed with the PCC beforehand.

12. There have been some changes to the content of the strategy this year, namely:

- A tightening of the investment criteria for foreign investments (Annex E)
- An addition to Treasury Management Practice 1 (Risk Management) around environmental, social and governance issues.

13. Other key considerations this year include the following:

a. A statutory instrument has now been laid to transfer the PCC's functions to the South Yorkshire Mayor in May 2024, just after the election. This is going through the parliamentary process. This strategy outlines the current position, but it may be subject to change once the transfer has taken place. Although the Police Fund must be kept separate, there may be other changes that are necessary to align with the wider Combined Authority. Changes to the strategy are allowed mid-year provided they are subject to appropriate approval.

b. IFRS16 – the new regulations on accounting for leases has been further deferred until 1.4.24 (financial year 2024/25). This will mean that relevant off-balance sheet leased assets will be brought onto the balance sheet as a requirement for closing of the accounts in 2024/25.

The implications are being worked thorough and the Capital Financing Requirement, external debt (other long-term liabilities), the Authorised Limit and Operational Boundary may need to be amended mid-year once the detailed impact is known. There have been no other significant changes to the CIPFA Accounting Code of Practice that would impact in this area.

14. Affordability: Balanced Budget Requirement

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992 to produce a balanced budget. In particular, Section 33 requires the PCC, as a Local Authority, to calculate his budget requirement for each financial year to include the revenue costs that flow from capital financing decisions.

This means that capital expenditure must be limited to a level where increases in charges to revenue from additional external interest and running costs are affordable within the projected income levels for the foreseeable future.

Budget Assumptions

The budget estimates associated with treasury management activity are set out below:

	Estimate 24/25 £000	Estimate 25/26 £000	Estimate 26/27 £000
Interest payable	1,394	2,513	3,335
Debt Management Expenses	5	7	7
Other Interest Paid	28	28	28
Short-Term Borrowing Fees	3	3	3
Interest Receivable	(923)	(240)	(220)
Total	**507**	**2,311**	**3,153**

15. Treasury management activities expose the PCC to a variety of financial risks, the key risks being credit risk, liquidity risk, re-financing risk and market risk. Overall procedures for managing risk include adopting the requirements of CIPFA's Code of Practice (including an approved Treasury Strategy and Investment Strategy) and approving the prudential indicators annually in advance.

16. The treasury service itself is provided to the PCC by Doncaster City Council through a service level agreement. Additionally, under the service level agreement with Doncaster, the PCC uses Link Asset Management Services as his external treasury management advisers. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings/market information service comprising the three main credit rating agencies.

It must be recognised that responsibility for treasury management decisions remains with the PCC at all times, which will ensure that undue reliance is not placed upon external service providers. Whilst the advisers provide support to the internal treasury function under current market rules and the CIPFA Code of Practice, the final decision on treasury matters remains with the PCC. The PCC will ensure that the terms of the advisor's appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

Sophie Abbott
Chief Finance and Commissioning Officer.

SUPPORTING DOCUMENTATION:

Annex A –	CIPFA Treasury Management Code and Prudential Code revised codes implications
Annex B –	Treasury Management Policy Statement
Annex C –	Treasury Management Strategy Statement
Annex D –	Borrowing Strategy
Annex E –	Investment Strategy
Annex F –	Prudential Indicators
Annex G –	Minimum Revenue Provision (MRP) calculation policy
Annex H -	Treasury Management Practices
Annex I -	Detailed Economic Commentary provided by Link Asset Management

BACKGROUND PAPERS

a. CIPFA's Treasury Management in the Public Services: Code of Practice 2001 as revised November 2009, 2011, 2017 and 2021.
b. CIPFA's Prudential Code for Capital Finance in Local Authorities 2003 as revised November 2009, 2011, 2018 and 2021.
c. Local Government Act 2003
d. DLUHC Investment Guidance
e. DLUHC Minimum Revenue Provision Guidance
f. Local Authorities (Capital Finance and Accounting Regulations) 2003
g. PWLB Circulars

2021 CIPFA TREASURY CODE AND PRUDENTIAL CODE IMPLICATIONS

1. The Treasury Management Code will requires implementation of the following:

- **Adopt a liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.

- **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case.

- **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year.

- Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority.

- **Reporting to the PCC is to be undertaken quarterly.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments should be reported as part of the PCC's integrated revenue, capital and balance sheet monitoring.

- **Environmental, social and governance (ESG)** issues to be addressed within an authority's treasury management policies and practices (TMP1).

2. In addition, all investments and investment income must be attributed to one of the following three purposes: -

Treasury management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

Under current regulations the PCC only operates in the "Treasury Management" category.

3. Other changes are to the Capital or Annual Investment Strategies, and should include:

1. The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence
(The PCC currently doesn't invest in this way)

2. An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services)

3. Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed
(The PCC currently doesn't invest in this way)

4. Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments).
(The PCC currently doesn't invest in this way).

The PCC and JIAC will be updated on how all these will impact our current approach and any changes required will be formally adopted within the 2024/25 Treasury Management Strategy Statement.

TREASURY MANAGEMENT POLICY STATEMENT

1. The PCC defines his treasury management activities as:

   "The management of the PCCs borrowing, investments, and cash flows, his 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".

2. The key principles underpinning treasury management activities are as follows:

2.1 The PCC, along with his Chief Finance Officer, retains the responsibility for Treasury Management activity relating to the whole of the South Yorkshire Police Group.

2.2 The PCC regards the successful identification, monitoring and control of risk to be the prime criterion by which the effectiveness of 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.

2.3 The PCC acknowledges that effective treasury management will provide support towards the achievement of group business and service objectives. He is therefore committed to the principles of achieving best value in treasury management, and employing suitable performance measurement techniques, within the context of effective risk management.

3. There are two main objectives in relation to Treasury Management:

3.1 To ensure that the PCCs cash flows are planned adequately, and that cash is available when it is required. Surplus monies are invested in low risk counterparties or instruments commensurate with the PCC's low risk appetite, providing adequate security and liquidity, before considering investment return.

3.2 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 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 economical, outstanding debt could be restructured to meet the PCC's risk or cost objectives.

3.3 The contribution the treasury management function makes is critical, as the balance of debt and investment operations ensures 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 Police Fund Balance.

4. The PCC's high level policies for borrowing and investments are:

Borrowing

- If it was felt that there is a significant risk of a sharp fall in long and short term rates, then long term borrowing will be postponed.

- If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Investments

- The PCC's investment strategy has as its primary objective safeguarding the re-payment of the principal and interest of investments on time first, with ensuring adequate liquidity second and investment return third. In the current economic climate there is over-riding risk consideration, that of counterparty security. The investment strategy therefore considers security, liquidity then yield as the order of precedence.

- The PCC will continue to favour quality counterparties when placing funds, even if this involves a yield sacrifice.

5. Prudential Code

The PCC has adopted the CIPFA Treasury Management Framework and Prudential Code for Local Authorities.

TREASURY MANAGEMENT STRATEGY STATEMENT 2024/25.

APPROVED ACTIVITIES OF TREASURY MANAGEMENT

Treasury Management encompasses the following:

a. Raising loans to fund capital payments, to re-finance maturing debt and to cover any temporary short-term cash flow deficits. Arranging other financial instruments and credit arrangements, in line with prudential indicators.
b. Debt restructuring to improve portfolio efficiency.
c. Investment of the PCC's long term and short term cash surpluses.
d. Managing the PCC's cash flow.
e. Arranging leasing finance (excluding land and buildings) on behalf of the PCC.
f. Dealing with financial institutions and brokers.

FORMULATION OF TREASURY MANAGEMENT STRATEGY

This involves a consideration of the following:

a. General objectives when financing capital expenditure.

    a. To minimise the net revenue costs of debt.
    b. To optimise the use of borrowing, usable capital receipts, capital grants, operating leases and revenue resources.
    c. To comply with all statutory controls and professional guidelines relating to treasury management.
    d. To consider the impact on revenue through the policy on minimum revenue provision (MRP).

b. The prospects for interest rates and economic outlook are also factors requiring consideration, particularly in the current volatile economy, as well as the policy on borrowing in advance of need. A detailed commentary from our treasury advisors can be found at **Annex I**.

c. Current interest rates and forecasts provided by Link are as follows:

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

BORROWING STRATEGY 2024/25.

The PCC is currently maintaining an under-borrowed position. This means that the capital borrowing need (the CFR), has not been fully funded with loan debt as cash supporting the PCC's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The CFO will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

a. If it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
b. If it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.
c. Excess funds, as a result of taking borrowing in advance of need, will be invested with high quality counterparties as set out in the annual investment strategy.

Maturity Profile

It is considered good practice to have a reasonably even spread of maturity dates for outstanding loans, thereby avoiding the need to replace a large proportion of total borrowings in a single year.

The PCC's current policy is to observe the Prudential Indicators for the maturity profile.

The maturity limit will continue to be reviewed as the PCC strives to achieve the best practice requirements of the Prudential Code.

Any decisions will be reported to the PCC and JIAC at the next available opportunity.

Borrowing in advance of need

The PCC will not borrow more than or in advance of his 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 CFR 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. Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates. This situation will be monitored however, if rescheduling was to be undertaken, it would be reported to the PCC formally.

Financial institutions as a source of borrowing and / or types of borrowing

Approved Sources of Long and Short term Borrowing

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
UK Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Negotiable Bonds	●	●
Overdraft		●
Internal (capital receipts & revenue balances)	●	●
Finance leases	●	●

Consideration may also be given to sourcing funding at cheaper rates from the following:

- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)

The degree to which any of these options proves cheaper than PWLB Certainty Rate is still evolving, but our advisors will keep us informed as to the merits of each of the above. Any decisions will be based on security, liquidity and yield, in that order.

INVESTMENT STRATEGY 2024/25

BACKGROUND

The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, as managed by the treasury management team.

Non-financial investments, essentially the purchase of income yielding assets and service investments, are not part of the PCC's statutory remit.

The PCCs investment strategy has regard to the following:

1. DLUHC's Guidance on Local Government Investments ("the Guidance")
2. CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
3. CIPFA Treasury Management Guidance Notes 2021

Investment strategy

The PCC's investment priorities will be security first, portfolio liquidity second and then yield (return). The PCC will aim to achieve the optimum return (yield) on his investments commensurate with proper levels of security and liquidity and with regard to the Authority's risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The guidance from the DLUHC and CIPFA places a high priority on the management of risk. The PCC has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

A spread of maturity dates for investments will be maintained.

To monitor fixed and variable interest rates, and if it is considered appropriate, to have up to the level of investable funds on variable rates of interest.

Investment returns expectations.

The current economic forecast includes a forecast for Bank Rate to have peaked at 5.25%. Economists are suggesting that budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	
2023/24 (residual)	5.30%
2024/25	4.55%
2025/26	3.10%
2026/27	3.00%
2027/28	3.25%
Years 6 to 10	3.25%
Years 10+	3.25%

These rates have been included in our investment returns budget calculations.

Risk Management Policy

The PCC's investment priorities will be, as its primary objective, safeguarding the repayment of the principal and interest of investments on time first, with ensuring adequate liquidity second and investment return third (security, liquidity then yield). Counterparty limits are monitored through Link (our treasury advisors) and other information, in order for officers to maintain adequate control over the operational investment process.

Guidance from the DLUHC and CIPFA places a high priority on the management of risk. The PCC has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

a. Minimum acceptable credit criteria

These are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

b. Other information

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the PCC will engage with his advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

c. Creditworthiness Policy

The PCC applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit in a weighted scoring system which is then combined with an overlay of credit default swap spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the PCC to determine the suggested duration for investments. The PCC will therefore use counterparties within the following durational bands:

1. Yellow 5 years *
2. Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
3. Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
4. Purple 2 years
5. Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
6. Orange 1 year
7. Red 6 months
8. Green 100 days
9. No colour not to be used

The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue weight to just one agency's ratings.

Typically the minimum credit ratings criteria the PCC will use will be a short term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored at least monthly. The PCC is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

1. if a downgrade results in the counterparty / investment scheme no longer meeting the PCC's minimum criteria, further use as a new investment will be withdrawn immediately.
2. in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the PCC's lending list.

Sole reliance will not be placed on the use of this external service. In addition the PCC will also use market data and market information, information on any external support for banks to help support the decision making process. The following information summarises the credit worthiness policy:

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

Colour	Maximum Term
Yellow	5 years
Dark Pink	5 years for enhanced money market funds (EMMFs) with a credit scored of 1.25
Light pink	5 years for enhanced money market funds (EMMFs) with a credit scored of 1.5
Purple	2 years
Blue	1 year
Orange	1 year
Red	6 months
Green	100 days
No colour	Not to be used.
PCC's own banker	The PCC's current banker has a one colour band uplift from these ratings with the resulting maximum investment amount and maturity periods applying. This is the only exception applied.

Credit and Counterparty Risk Management

The following will be used to manage counter party risk:

1. **Specified Investments**

   All such investments will be sterling denominated, with maturities up to maximum of 365 days, meeting the minimum 'high' quality criteria where applicable.

2. **Non- Specified Investments**

   These are any investments which do not meet the specified investment criteria. A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories. Examples of non-specified investments include bodies which are covered by government guarantee schemes and the PCC's own banker if it fails to meet the basic credit criteria. No more than 30% of the PCCs investments, to a maximum of £20m, will be held in aggregate in non-specified investment. New non-specified counterparties must be approved by the CFO.

   The criteria, time limits and monetary limits applying to institutions or investment vehicles are as follows:

	Minimum credit criteria / colour band	Maximum % of total investments or maximum amount per institution	Maximum maturity period
DMADF – UK Government	N/A	100%/No limit	6 months
UK Government gilts	UK sovereign rating	100%/No Limit	12 months
UK Government Treasury bills	UK sovereign rating	100%/No limit	6 months
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Money market funds (CNAV/LVNAV or VNAV)	AAA	100%	Liquid
Government liquidity funds	AAA	100%	Liquid
Local authorities	N/A	£30m (maximum £5m per Authority)	12 months
Term deposits with banks and building societies - £30m maximum with any one institution and £30m with any one banking group.	Blue Orange Red Green No Colour	£30m £30m £20m £10m Nil	12 months 12 months 6 months 100 days Not for use
Term deposits with other counterparties - £15m with any one institution and £30m with any one banking group.	Blue Orange Red Green No Colour	£15m £15m £15m £10m No Colour	12 months 12 months 6 months 100 days Not for use

The above criteria has been re-assessed since last year and amendments made in line with counterparty risk. *It should be noted that the PCC's current banker has a one colour band uplift from these ratings with the resulting maximum investment amount and maturity periods applying. This is the only exception applied*.

Accounting treatment of investments

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the PCC. To ensure that the PCC is protected from any adverse revenue impact, which may arise from these differences, the accounting implications of new transactions will be reviewed before they are undertaken.

As a result of the change in accounting standards for 2022/23 under IFRS 9, the PCC will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

Country limits

The UK is currently rated as AA- but is still an approved country for investments. However, there are other countries (see table below for the current list) which have higher sovereign ratings than the UK (based on the lowest out of three ratings from the agencies Fitch, Moody's and S&P) and have banks operating in sterling markets which have credit ratings of green or above in the Link Assets Services Treasury Solutions credit worthiness service.

AAA	AA+	AA
1. Australia 2. Denmark 3. Germany 4. Netherlands 5. Norway 6. Singapore 7. Sweden 8. Switzerland	9. Canada 10. Finland 11. U.S.A.	12. Abu Dhabi (UAE)

The strategy enables investment with countries with ratings of AAA, AA+ and AA from the lowest of the three rating agencies outlined above, provided they are also rated as green, or above, through Link Asset Services Treasury Solutions. Any investment outside of the UK must be agreed with the PCC beforehand.

End of year investment report

At the end of the financial year, the PCC will report on his investment activity as part of the Annual Treasury Report.

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2024/25 – 2026/27

1. The PCC's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2. **Capital Expenditure**

Capital Expenditure £'000	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Total	13,390	19,656	18,025	20,454	21,519

Other long-term liabilities - The above financing need excludes other long-term liabilities, such as leasing arrangements that already include borrowing instruments. Note the implications of IFRS 16 is not included in the above and the figures may need to be amended mid-year once the detailed impact is known. The PCC no longer holds any other long term liabilities.

The table below summarises the above capital expenditure plans and how these plans are forecast to be financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £'000	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Capital receipts	0	0	3,659	300	300
Capital grants	0	427	0	0	0
Capital reserves	0	0	0	0	0
Revenue	3,966	0	0	0	0
Net financing need for the year	**9,424**	**19,229**	**14,367**	**20,154**	**21,219**

3. **The PCC's Borrowing Need - Capital Financing Requirement (CFR)**

The second prudential indicator is the PCC's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the PCC's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge, which broadly reduces the borrowing need in line with each asset's life and use.

The CFR includes any other long-term liabilities (e.g. leases). Whilst these increase the CFR, and therefore the PCC's borrowing requirement, these types of scheme include a borrowing facility so the PCC is not required to separately borrow for these schemes. Note the implications of IFRS 16 is not included in the above and the figures may need to be amended mid-year once the detailed impact is known.

The PCC is asked to approve the CFR projections below:

£'000	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Total CFR	96,773	115,075	128,533	147,733	167,896
Movement in CFR	**8,478**	**18,302**	**13,458**	**19,199**	**20,163**

Movement in the CFR represented by:

Net financing need for the year (above)	9,424	19,229	14,367	20,154	21,219
Less MRP/VRP and other financing movements	-946	-926	-909	-955	-1,056
Movement in CFR	**8,478**	**18,302**	**13,458**	**19,199**	**20,163**

4. **Debt and the CFR**

In accordance with best professional practice, the PCC does not associate borrowing with particular items or types of expenditure.

The PCC has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The PCC has, at any point in time, a number of cashflows both positive and negative, and manages his treasury position in terms of borrowings and investments in accordance with the approved treasury management strategy and practices.

In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the PCC and not simply from those arising from capital spending. In contrast, the capital financing requirement reflects the PCC's underlying need to borrow for a capital purpose.

CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence:

"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".

The PCC's Chief Finance Officer reports that the PCC has had no difficulty so far meeting this requirement in 2023/24 and does not envisage any difficulties in the future. The PCCs external debt is not currently above his borrowing need or CFR.

	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
External Debt					
PWLB debt at 1 April	34,070	32,570	29,570	42,151	61,505
Repayment of debt	-1,500	-3,000	-1,786	-800	-1,335
Forecast new debt	0	0	14,367	20,154	21,219
Total PWLB debt	**32,570**	**29,570**	**42,151**	**61,505**	**81,389**
Gross debt at 31 March	32,570	29,570	42,151	61,505	81,389
The CFR	96,773	115,075	128,533	147,733	167,896
Under / (over) borrowing	**64,203**	**85,505**	**86,382**	**86,228**	**86,507**

5. **Liability Benchmark**

The PCC is required to estimate and measure the liability benchmark for the forthcoming financial year and the following two financial years, as a minimum, but preferably over the 50 year period to capture the profile of all existing debt.

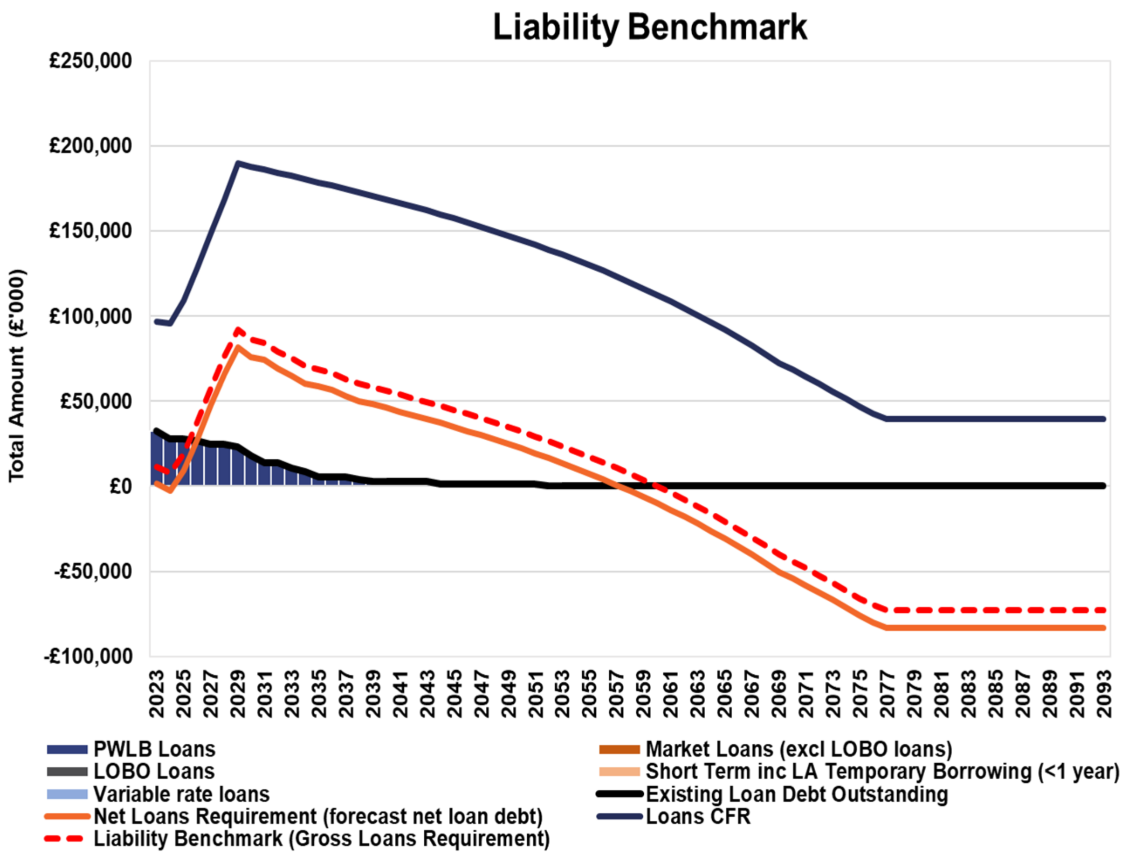
There are four components to the liability benchmark:

a. **Existing loan debt outstanding**: the PCC's existing loans that are still outstanding in future years (the blue bars in the chart above).

b. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP. It is essentially the unfinanced element of the capital programme yet to be paid for by a cash resource and excludes any part of the CFR related to other long-term liabilities (typically leases). The loans CFR starts from the last year-end actual loans CFR. Added to this is the prudential borrowing in the PCC's current approved capital programme. Deducted from this is the annual Minimum Revenue Provision (MRP) set aside to repay this liability and any material capital receipts to be applied towards repaying debt.

c. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

d. **Liability benchmark** This is a forecast of the level of gross loan debt the PCC will require in accordance with his budget plans. It starts from the Net loans requirement then adds a liquidity allowance (to provide an adequate, but not excessive, level of liquidity for daily cash flow management) to indicate the amount of gross loan debt required.



From the graph above the following can be seen:

- The loans CFR peaks at £189m in 2029 (based on approved schemes). This is the dark blue line.
- The PCC has residual loan debt of £23.3m at that point.
- The PCC initially has surplus cash of £31.0m at present, but this will be fully utilised bar £10m (the liquidity buffer) in maintaining an under-borrowing/internal borrowing position in the first instance, meaning cash of £21.0m can be used as internal borrowing. This information is encapsulated in the orange line, which is the Net Loans Requirement and ignores the liquidity buffer.
- The broken red line is the Liability Benchmark/Gross Loans Requirement and identifies a prudent further £10m of borrowing that can be added to the Net Loans Requirement = £91.8m

On this basis, the PCC will have an additional borrowing requirement of around £68.5m in 2029 (£91.8m borrowing at its peak, less £24.3m of existing external loans). This is the under Liability Benchmark figure of £91.8m.

Authorised Limit for External Debt

It is recommended that the PCC authorises the following limits for his total external debt gross of investments for the next three financial years:

	2024/25 £000	2025/26 £000	2026/27 £000
Authorised limit	**141,386**	**162,506**	**184,685**

The limits separately identify borrowing and other long term liabilities such as finance leases.

The PCC's Chief Finance Officer reports that these authorised limits are consistent with the PCC's current commitments, existing plans and the proposals in the 2024/25 budget report for capital expenditure and financing, and with the PCCs approved treasury management policy statement and practices.

The PCC's Chief Finance Officer confirms that the limits are based on the estimate of most likely, prudent but not worst case scenario, with sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes have been taken into account.

The PCC is asked to note that the authorised limit determined for 2024/25 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

Note the implications of IFRS 16 are not included in the above and the figures may need to be amended mid-year once the detailed impact is known.

Operational Boundary for External Debt

The PCC is also asked to approve the following operational boundary for external debt.

The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects directly the PCC's Chief Finance Officer's estimate of the most likely, prudent but not worst case scenario, without the additional headroom. It reflects the limit beyond which external debt is not normally expected to exceed. Within the operational boundary, figures for borrowing and other long term liabilities are separately identified.

The operational boundary represents a key management tool for in year monitoring by the PCC's Chief Finance Officer and it is based on the CFR.

	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Operational boundary	**128,533**	**147,733**	**167,896**

Note the implications of IFRS 16 are not included in the above and the figures may need to be amended mid-year once the detailed impact is known.

This standard removes the distinction between finance and operating leases which means that some of the PCC's few existing leases will now be brought onto the balance sheet, potentially increasing the PCC's CFR and therefore increasing the operational boundary. The effect of this for the PCC is currently projected to be minimal, however this will be monitored on an ongoing basis.

Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the PCC's overall finances. The PCC is asked to approve the following indicators:

1. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream. The estimates of financing costs include current commitments and the proposals in this budget report.

	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Total	4.46	4.97	3.61	5.35	5.54

2. Impact of Capital Expenditure Proposals on Precept

The estimate of the incremental impact of capital investment decisions proposed in 2024/25 and the forecast for future years, over and above capital investment decisions that have previously been taken by the PCC, is:

	2022/23 %	2023/24 %	2024/25 %	2025/26 %	2026/27 %
Incremental Impact	-0.11	0.02	-0.02	-0.01	-0.01

3. Maturity structure of borrowing

These gross limits are set to reduce the PCC's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
The PCC is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2024/25		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to 2 years	0%	75%
2 years to 5 years	0%	80%
5 years to 10 years	0%	80%
10 years and above	25%	100%

Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services

The PCC has adopted this code as outlined in section 2, paragraph 7 of Financial Regulations, contained in the March 23 revised joint code of corporate governance.

Total Principal Sums invested for periods longer than 364 days

The PCC's strategy does not allow for investments longer than 364 days.

PCC and Officer Training

The increased consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for officers.

Officer Training: Regular Intermediate and Advanced Treasury Management training is undertaken by key members of staff. The majority of this training is provided by Link, however, staff are encouraged to undertake other relevant training as it becomes available.

Training for the PCC and members of the Independent Audit Committee is available through Treasury Management courses provided by Link, these have been provided for in the OPCC budget.

MRP POLICY STATEMENT

BACKGROUND

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, the PCC is required to pay off an element of the accumulated capital spend each year (the CFR) through a revenue charge (minimum revenue provision - MRP). He is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

The PCC is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the PCC can use any other reasonable basis that it can justify as prudent.

The MRP policy statement required PCC approval in advance of each financial year.

There are four options for calculating a prudent provision. Local authorities can use a mix of these options for debt taken out at different times whilst having regard to the guidance and complying with the statutory duty to make a prudent provision.
The four suggested MRP options available (in the statutory guidance) are:

Option 1: Regulatory Method
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method

The PCC approved the 2019/20 MRP Policy Statement in February 2019. The Policy followed Option 1, the regulatory method, for capital expenditure incurred before 1 April 2008, i.e. an approximate 4% reduction in the borrowing need (CFR) each year and Option 3, the asset life method for all unsupported expenditure incurred on or after 1 April 2008, with the charge based on the life of the assets. The latter charge commencing in the year in which the asset first becomes operational. The review of the PCC's MRP was undertaken, based on the Statutory Guidance with a view to implementing the change from the 2019/20 financial year.

No change was recommended to the treatment of capital expenditure incurred prior to 1 April 2008. The current method of applying a 4% charge on a reducing balance basis will therefore continue to apply.

For post 1 April 2008 capital expenditure, the current method, Option 3, has two options as to how to calculate the MRP for capital expenditure incurred after this date that is undertaken through the Prudential system where there is no Government support (self-financed). The first is the equal instalment method. This has been applied to 31 March 2019, whereby an equal annual amount is charged to the revenue account over the estimated life of the asset. The second option is the annuity method. This links MRP to the flow of benefits from an asset where the benefits are expected to increase in later years.

The PCC approved a change to the MRP policy, adopting the annuity method from 1.4.19, and it is recommended that this method continues. It should be noted that capital expenditure incurred during 2024/25 will not be subject to an MRP charge until 2025/26, or in the year after the asset becomes operational.

MRP POLICY STATEMENT 2024/25

a. For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

   Existing practice

   MRP will follow the existing practice outlined in the DLUHC regulations (option one), which provides for an approximate 4% reduction in the borrowing need (CFR) each year.

b. From 1 April 2008 for all unsupported borrowing (including leases) the MRP policy from 2019/20 will be*:*

   Asset life method

   MRP will be based on the estimated life of the assets, in accordance with the regulations (option three), whereby the annuity method has been adopted.

Annex H

TREASURY MANAGEMENT PRACTICES

CIPFA recommends that an organisation's treasury management practices (TMP's) include those of the following that are relevant to its treasury management powers and the scope of its treasury management activities. Treasury management practices documents for each of the following are in use for the PCCs treasury management activities. A detailed review of these is currently being undertaken in conjunction with Doncaster City Council's Treasury Management Department (our providers). Further details can be provided to members should they required them.

TMP1	Risk management This practice document covers the following risks: credit and counterparty, liquidity, interest rate, exchange rate, inflation, re-financing, legal and regulatory, price risk, fraud, error, corruption and contingency management.
TMP2	Performance measurement
TMP3	Decision-making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering/Bribery
TMP10	Training and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance

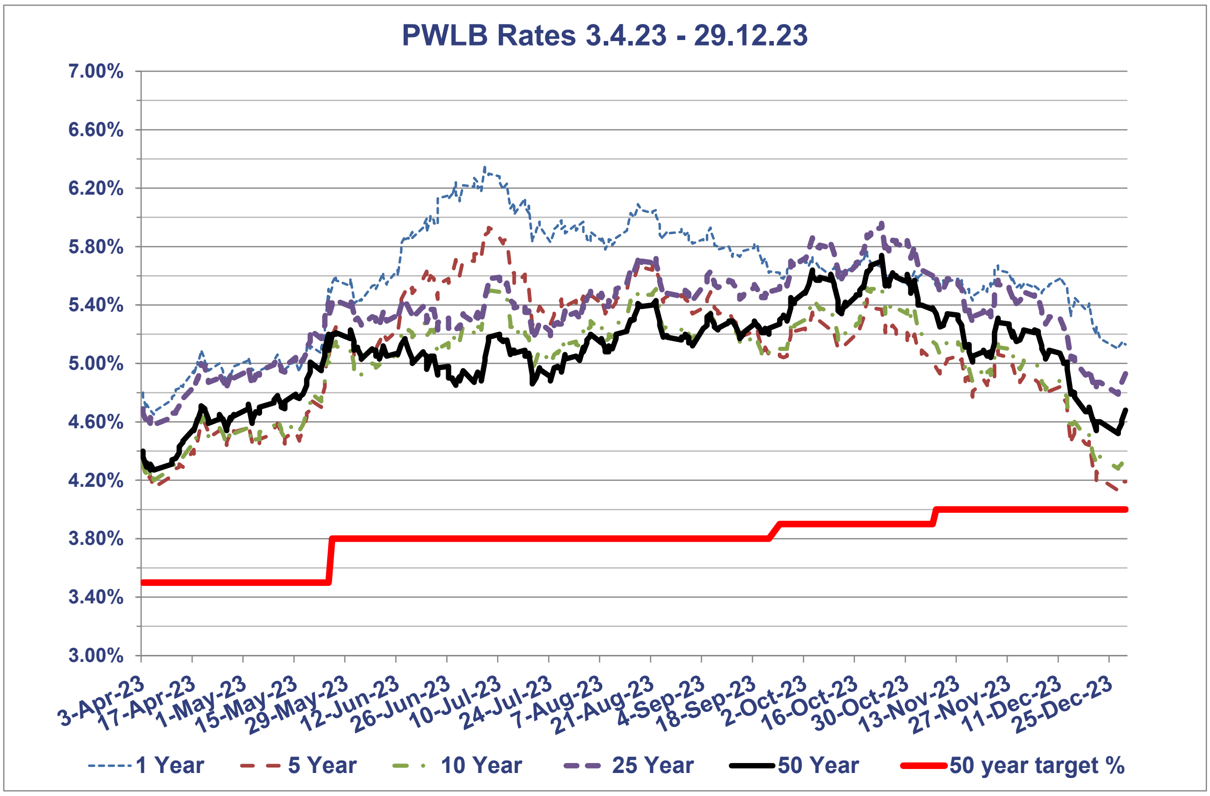
DETAILED ECONOMIC BACKGROUND

- The third quarter of 2023/24 saw:
  - A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
  - A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS "experimental" rate of unemployment has remained low at 4.2%;
  - CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
  - Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022;
  - The Bank of England holding Bank Rate at 5.25% in November and December;
  - A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.
- The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.
- However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.
- The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.

- Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with the Halifax house price index recently pointing to a 1.7% year on year increase whilst Nationwide's December data pointed to a -1.8% year on year decrease. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.
- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.
- The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.
- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.
- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.

- The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.
- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until Q2 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% in early January, with further declines likely if the falling inflation story is maintained.
- Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from $1.21 in November to $1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February 2023. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

In the table below, the rise in gilt yields across the curve in the first half of 2023/24, and therein PWLB rates, is clear to see, prior to the end of year rally based on a mix of supportive domestic and international factors.



HIGH/LOW/AVERAGE PWLB RATES FOR 3.4.23 – 29.12.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.60%	5.09%	5.03%	5.35%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

MPC meetings 2nd November and 14th December 2023

- On 2nd November, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14th December reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about "sticky" inflation remained in place.
- Nonetheless, with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.

- In addition, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has kept short-term rates in the range of 5.25%-5.50%, whilst the ECB has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.