

POLICE AND CRIME COMMISSIONER FOR SOUTH YORKSHIRE

2015/16 BUDGET REPORT

INTRODUCTION

- 1 The Police and Crime Commissioner ("the Commissioner") is required to approve the 2015/16 budget and issue the council tax precept by 1 March 2015. The information set out in this report will enable the Commissioner to approve the budget and council tax precept.
- 2 The proposed Council Tax precept was considered by the Police and Crime Panel ("the Panel") on 30 January 2015. The proposed budget and council tax for 2015/16 was agreed by the Panel
- 3 The information provided in this Report will be more informative to its readers when considered alongside the "South Yorkshire Police and Crime Plan 2015/18" (ref link) which will be considered by the Panel in March 2015.

PLANNING FOR 2015/16

- 4 Following the election of the new Commissioner for South Yorkshire on 30 October 2014 the Office of the Police and Crime Commissioner's annual strategic planning cycle has led to a refresh of the current Police and Crime Plan and the Commissioner's strategic priorities to reflect the needs of South Yorkshire's communities and a wide range of information gathered. The refreshed Police and Crime Plan ("the Plan") will aim to improve public trust by focusing on three strategic priorities of Protecting Vulnerable People, Tackling Crime and Anti-Social Behaviour and Fairness, with a greater emphasis on Protecting Vulnerable People.
- 5 There has been improved integration of the Commissioners strategic planning and financial planning processes this year, to ensure that decisions about resource allocations are appropriately and realistically aligned to the updated priorities. In this way, public consultation, environmental scanning and police intelligence have been considered alongside the challenge of reduced Government funding for policing and crime services in South Yorkshire and the likelihood of continuing significant reductions in funding for the foreseeable future.

NATIONAL CONTEXT

- 6 The overall financial outlook facing policing in South Yorkshire continues to be extremely difficult given the Government's budget deficit reduction programme. For 2014/15, what had expected to be a 3.3% funding reduction by government became a 4.8% reduction due to the Home Office top slicing the amount to be distributed to PCC's to fund national initiatives such as the

Police Innovation Fund, the Policing College and the National Police Co-ordination Centre. The year on year reduction amounted to almost £9.5m for South Yorkshire.

- 7 The Finance Settlement announced in December 2013 was a one year settlement and related to 2014/15 only; this was different to the approach taken by the Department for Communities and Local Government who had issued local authorities with a two year settlement and provided "indicative" figures for 2015/16. This was due to the Home Secretary requiring time to consider how to manage the further 1% reduction in government department spending announced by the Chancellor in November 2013. This lack of clarity about funding for 2015/16 presented a significant planning issue for PCC's and Chief Constables.
- 8 The Provisional Funding Settlement for 2015/16 announced in December 2014 – and confirmed in Parliament on 4 February 2015 - represents a reduction in funding for PCC's of 5.1% at a national level. Once again the Government has top sliced funding for national initiatives with new priorities such as the "Police Knowledge Fund" and "Major Programmes", now included in the top slicing. There is still uncertainty around the nature of additional charges to Forces for national ICT systems and the National Police Co-ordination Centre which potentially could have involved further top slices.

Police Revenue Funding	2014/15 £m	2015/16 £m	Change %
Funding to PCCs			
Home Office Police Grant	4,583.3	4,309.2	-6.0%
Formula Funding (RSG from DCLG)	2,923.5	2,818.3	-3.6%
Welsh Government	140.0	135.0	-3.6%
Welsh Top-Up	13.1	12.5	-4.7%
Counter-Terrorism Specific Grant	564.0	564.0	-
Council Tax Freezes for London	23.6	30.4	28.9%
2011/12 Council Tax Freeze	58.8	58.8	-
2013/14 Council Tax Freeze	7.3	7.3	-
2014/15 Council Tax Freeze*	2.7	2.7	-
Sub-Total	8,313.7	7,938.3	-4.5%
Top-slices			
National Police Coordination Centre	2.3	-	-
PFI	72.8	72.8	-
Ordnance Survey	1.7	1.7	-
Contingency	5.9	-	-
IPCC	18.0	30.0	66.7%
Innovation Fund	50.0	70.0	40.0%
College of Policing	2.8	4.6	64.3%
City of London	2.5	2.8	14.3%
HMIC	9.4	9.4	-
Police Knowledge Fund	-	5.0	-
Major Programmes	-	40.0	-
Police Special Grant	-	15.0	-
Sub-Total	165.4	251.3	52.0%
Total Government Funding	8,479.1	8,189.6	-3.5%

IMPACT ON SOUTH YORKSHIRE

- 9 For South Yorkshire, the Finance Settlement represents a reduction in funding of £9.6m (or 4.83%) compared to 2014/15. This is on top of a reduction of £9.5m in the previous financial year: i.e. a cumulative reduction of £19m over the last 2 financial years.

	Settlement 2014/15 £000	Settlement 2015/16 £000	Reduction £000	%
FINANCING:				
Police Grant (HO Core)	-107,770	-101,175	-6,595	6.12
Formula Funding (Ex DCLG Formula)	-80,957	-77,909	-3,048	3.76
Council Tax Freeze Grant 2011/12	-1,269	-1,269	0	
Council Tax Support Scheme compensation	-9,591	-9,591	0	
TOTAL FINANCE SETTLEMENT	-199,587	-189,944	-9,643	4.83

PRECEPT ISSUES

- 10 The Commissioner is required to determine a Council Tax Requirement, representing the amount after government grant that will be contributed by local council taxpayers to the cost of policing. This amount becomes the precept that is collected by the district councils and is a charge on the Collection Fund managed by each district.
- 11 In order to calculate the total amount of precept the overall number of properties from which the council tax can be collected – the “tax base” - is determined by each district council. For 2015/16, the overall tax base for South Yorkshire has increased by 6,353 Band D equivalent properties, or 1.95%, compared to 2014/15. The variation across the districts is shown below:

	Band D Equivalent Properties 2014/15	Band D Equivalent Properties 2015/16	Variation	%
Barnsley	58,751.60	60,257.75	1,506.15	2.56
Doncaster	74,267.00	75,729.00	1,462.00	1.97
Rotherham	64,179.01	65,477.52	1,298.51	2.02
Sheffield	128,144.18	130,231.44	2,087.26	1.63
TOTAL	325,341.79	331,695.71	6,353.92	1.95

- 12 The district councils are also required to determine the position on their collection funds, and to notify the precepting authorities of their share of any estimated surplus or deficit. The Commissioner has been notified that the share of the surplus for 2015/16 has increased by £0.3m, compared to 2014/15 as set out below.

	Collection Fund Surplus 2014/15 £	Collection Fund Surplus 2015/16 £	Variation £
Barnsley	118,000	165,710	47,710
Doncaster	323,474	323,474	0
Rotherham	270,000	332,000	62,000
Sheffield	18,959	219,360	200,401
TOTAL	<u>730,433</u>	<u>1,040,544</u>	<u>310,111</u>

Council Tax Referendum principles

- 13 On 10 February 2015, Parliament approved the "Referendums Relating to Council Tax Increases (Principles) Report" for 2015/16. These principals will mean that an increase in council tax for 2015/16 of 2% or more will be regarded as "excessive". The Localism Act 2011 requires that any local authority or PCC that sets a council tax that is deemed to be excessive by the Principles will be required to hold a local referendum.

Council Tax Freeze Grant

- 14 The Secretary of State for Local Government has announced that a Council Tax Freeze Grant (CTFG) will be available in 2015/16 for those police and crime commissioners that keep the council tax at the same level as 2014/15. "Indicative Council Tax Freeze Grant Allocations for 2015/16" have been provided, and the allocation for South Yorkshire amounts to approximately £574,000. This is based on a projected taxbase growth (of slightly less than 1%), and upward revisions to the taxbase to reflect the removal of Council Tax Support Scheme (CTSS) claimants (producing an "indicative" base of 394,746 Band D equivalent properties).
- 15 The Government provides a CTFG allocation that is equivalent to a 1% increase in council tax, excluding the reduction in taxbase due to the CTSS claimants. This results in a higher cash value than a 1% increase based on the actual tax base. The final allocation will be based on the taxbase returns that are submitted in March 2015 by the district councils, and which will show the adjustments for CTSS claimants. If the Commissioner were to determine a council tax in accordance with the Freeze Grant principles, the likely CTFG amount would be approximately £580k because of the increase in the taxbase for 2015/16.

Council Tax options

- 16 The information set out later in this report details the financial challenges facing the Commissioner and the difficult decisions that need to be made to provide a balanced budget for 2015/16. The Commissioner's decision about the council tax is set in this context and must have regard to the scale and

potential impact of funding reductions on the delivery of policing in the medium term and the capacity to achieve the priorities set out in the Police and Crime Plan.

17 In broad terms, the council tax options available to the Commissioner are:

- Option One: to keep council tax at its current (2014/15) level and therefore qualify for the CTFG. Keeping the council tax its current level will result in an additional £923k (compared to 2014/15) due to the increase in the tax base and a further £580k from acceptance of the CTFG.

In previous years, CTFG has been rolled up into other funding allocations from Government in subsequent years, and has therefore been subsumed in general grant and then subject to further reductions. The Secretary of State has given an assurance that CTFG will be maintained into the future although to what extent this will continue indefinitely is uncertain.

- Option Two: to increase the council tax by an amount that would "trigger" the holding of a local referendum. Each 1% increase in the council tax generates an additional £482k of council tax income. An increase in council tax of 2% would generate an additional £964k: this is approximately £384k more than option one.

However there are likely to be significant costs associated with the holding of a local council tax referendum with each of the district councils looking to recover these costs from the Commissioner. The revenue budget would need to take account of these costs which would therefore reduce the "benefit" from the increased council tax. If the result of any referendum were to show a majority against the tax increase, the referendum costs would then have to be found from a reduced budget which would also then have to include significant further costs associated with re-billing council tax payers and the costs of negative cash flows resulting from delayed tax collection. For these reasons a council tax increase that would involve a referendum carries significant risk and is not proposed as an option.

- Option three: to increase the council tax by an amount up to, but below, the limit that would trigger a local council tax referendum. The amount generated by a 1.95% increase in council tax would generate about £359k more than option one. An increase of this amount would not involve the risks associated with triggering a local referendum.

18. The levels of additional income from each option are summarised below:

	Option 1 £000	Option 2 £000	Option 3 £000
Effect of increased Tax Base	923	923	923
Acceptance of Freeze Grant	580	0	0
Increase in Council Tax of 2%		964	
Increase in Council Tax of 1.95%			939
Total Additional Council Tax Income	1,503	1,887	1,862

- 19 The option recommended to the Commissioner is Option 3, a council tax increase of 1.95%. This would avoid making further reductions in spending amounting to £359k that would be required with option one. Increasing the council tax rather than accepting the CTFG would also provide an element of stability in the long term, in so far as the council tax income would be incorporated in the base budget and successive budgets would build on this figure. The doubts about the long term continuance of CTFG also count against this being part of a sustainable financial strategy.

OVERALL FUNDING POSITION FOR 2015/16

- 20 The proposed council tax increase of 1.95% would produce a Band D council tax of £148.16 and total council tax income of £49.144m for 2015/16. This is the proposed "Council Tax Requirement". With the inclusion of the collection fund surplus, the proposed "Budget Requirement" for 2015/16 will be £240.128m. This represents a reduction in the Budget Requirement of approximately 3% compared to 2014/15. This is the level at which net revenue expenditure needs to be kept and which represents the figure that budgeted expenditure must balance to.

	Budget 2014/15 £'000	Budget 2015/16 £'000
Council Tax income	-47,282	-49,144
Police Grant (HO Core)	-107,770	-101,174
Revenue Support Grant (Ex DCLG Formula)	-80,957	-77,909
Council Tax Freeze Grant 2011/12	-1,269	-1,269
Council Tax Support Scheme compensation	-9,591	-9,591
Collection Fund surplus	-730	-1,041
FINANCING OF BUDGET REQUIREMENT	-247,599	-240,128

BALANCING THE BUDGET FOR 2015/16

- 21 As stated in the earlier part of the report, the reduction in funding from Government amounts to £9.6m compared to 2014/15. There is a requirement to make sufficient budget provision for the effect of price inflation, pay awards and the planned resources required to address the heightened emphasis given to Protecting Vulnerable People. These additional "Pressures" amount to almost £8m for 2015/16. The combined effect of the funding reduction and pressures mean that almost £17.4m has to be found to balance the 2015/16 budget. This will have to come from a combination of savings and additional income.

	£000
Reductions in Grant	9,644
Pressures	
Force	5,174
OPCC	170
Additional resources for New Priorities	2,405
Required savings/additional income	17,393

REQUIRED SAVINGS/ADDITIONAL INCOME

- 22 Since the Government commenced its austerity budget programme in 2010, public services such as policing have been required to respond by reviewing their cost structures including changing the way in which services are delivered and working in partnership with other organisations. South Yorkshire Police have been reviewing expenditure and identifying savings proposals as part of the "Diamond" review programme, which was established in 2010.
- 23 The savings proposals, considered by the Commissioner, have largely been identified through the Diamond Review programme which has identified savings amounting to approximately £9m. There are two elements of those proposals that make up the majority: namely, the District Policing Review and Collaboration

District Policing Review (savings of £6.3m)

- 24 South Yorkshire Police is implementing a new operating model, developing new ways of working to better serve the communities of South Yorkshire with fewer resources. Despite a shrinking overall budget the new policing model has been designed to maximise the availability of locally based staff and to maintain the important focus on neighbourhood delivery of policing. This will be achieved by changes in the way the force delivers its services and will enable the force to make a significant investment in the staffing of public protection units which deal with child abuse, domestic abuse and child sexual exploitation. This restructuring will mean that the Force can continue to tackle

crime and anti-social behaviour, protect vulnerable people and deliver fair treatment with fewer officers. It will be achieved by exploiting new technology and streamlined ways of working with structures designed around the needs of victims and those who access police services. The result will be a more flexible style of policing delivery allowing staff to spend more time in the community rather than inside the police station.

25 Local neighbourhood policing is at the heart of British Policing and the new force-operating model will maintain this style with uniform police officers and community support officers working within a defined geography where they are accountable for service delivery and known to their communities. The Force has confirmed that specialist resources will be there when needed, be it to protect vulnerable people, deal with serious crime and police our road networks. Achieving this change will be challenging and, in order to remain focused whilst the future financial position is unclear, the Chief Constable and his Senior Command Team have agreed, with support from the PCC, that the following principles will apply:

- Adopting a systems methodology approach to maximise efficiency when considering changes to parts of the organisation
- Rationalising buildings and estate, seeking opportunities to share with partners in local communities;
- Adopting leaner, more agile structures across the enabling services functions (Information technology, facilities management, HR, finance fleet & administration);
- Building upon opportunities to collaborate further with Humberside Police, including carrying out a feasibility study around the development of a strategic alliance with Humberside in specialist areas to optimise the savings made to date through shared enabling services and shared technology;
- Promoting streamlined management structures within the geographical areas of Local Policing to maintain frontline resources and meet demand for service;
- Optimisation of regional and national collaborations to maintain the force's ability to meet the strategic policing requirement e.g. Counter terrorism, National Police Air Service, Underwater search, Mounted police officers
- Integrating further principles around demand management to ensure right resource, first time, every time

26 In respect of the Local Policing Review the Senior Command Team and PCC have agreed that the South Yorkshire policing model will maintain uniform police officers and police community support officers working in Local Policing Teams within neighbourhoods. The Force has indicated that it is committed to working with partners but has been clear with partners that officers must be engaged in activities with a clear policing purpose e.g. providing visible patrol and reassurance to prevent crime and anti-social behaviour; victim centred investigation; and the enforcement and management of offenders.

- 27 To achieve the service required and build trust and confidence, the Force will continue to, challenge its ways of working and how it manages demand. Only 17% of initial demand on the police is to deal with crime, and much is around problem solving and responding to calls for service which is linked to vulnerability and supporting people at times of most need. The Chief Constable has given assurances that the Force response will be tailored to the caller in order to give the greatest opportunity to resolve the issue.

Collaboration (savings of approximately £1m)

- 28 In the forthcoming year it is proposed that there will be greater collaboration with Humberside Police which will be facilitated by our IS Strategy deploying new shared systems. Whilst this is unlikely to reach maturity until 2017/18 it is anticipated that the review work will produce savings which can be delivered in 2015/16.
- 29 Review work is ongoing in relation to developing operational collaboration in relation to specialised operations and crime management with both Humberside Police and West Yorkshire Police. It is anticipated that the review work will produce savings which will be delivered in 2015/16.

OVERALL SAVINGS

- 30 Together with the additional income from the proposed 1.95% increase in council tax precept, the savings proposed totalling £14.8m collectively represent a balanced position.

	£000
Increase in C Tax Income & Collection Fund surplus	-2,173
Increase in external funding/partner contributions	-338
Increased income	<u>-2,511</u>
 <u>Savings in 2015/16</u>	
Full year effect of previous years savings	-2,060
Diamond Review programme	-9,180
Other reductions in Force budgets	-2,609
Reductions in Partnership/Commissioning & Commissioners Office	-497
Reductions in capital financing costs	-435
Other reductions	-101
Total level of spending reductions	<u>-14,882</u>
 Total proposed savings/additional income	 <u>-17,393</u>

SUMMARY BUDGET

- 31 The proposed net revenue budget (the Budget Requirement) for 2015/16 is £240.128m. This represents a reduction of £7.471m compared to 2014/15.

	Budget 2014/15 £'000	Budget 2015/16 £'000
Chief Constable budget	244,103	237,829
PCC and OPCC Budget	1,994	2,127
Commissioning & Partnership	5,114	4,877
Debt Charges & interest on balances	7,426	7,132
External Funding	-4,263	-4,601
Contribution from Reserves	-6,775	-7,236
 BUDGET REQUIREMENT	 <u>247,599</u>	 <u>240,128</u>

COUNCIL TAX PRECEPT

- 32 The Commissioner set a council tax precept for a band D property of £145.33 for 2014/15. An increase of 1.95% for 2015/16 would produce a band D council tax precept of £148.16. This represents a weekly increase of 6p for a band D property.

	Precept for 2014/15		Precept for 2015/16		Increase	
	Annual	Weekly	Annual	Weekly	Annual	Weekly
	£	£	£	£	£	£
Band A	96.89	1.86	98.77	1.90	1.88	0.04
Band B	113.03	2.17	115.24	2.22	2.21	0.05
Band C	129.18	2.48	131.70	2.53	2.52	0.05
Band D	145.33	2.79	148.16	2.85	2.83	0.06
Band E	177.63	3.42	181.08	3.48	3.45	0.06
Band F	209.92	4.04	214.01	4.12	4.09	0.08
Band G	242.22	4.66	246.93	4.75	4.71	0.09
Band H	290.66	5.59	296.32	5.70	5.66	0.11

- 33 The council tax precept set by the Commissioner will be collected by the four South Yorkshire district councils

	Number of Band D Equivalents	Precept on Collection Fund
Barnsley	60,257.75	8,927,788
Doncaster	75,729.00	11,220,009
Rotherham	65,477.52	9,701,149
Sheffield	130,231.44	19,295,090
Total	<u>331,695.71</u>	<u>49,144,036</u>

RESERVES STRATEGY

- 34 The Commissioner needs to have financial reserves to ensure the effective day to day financial management of policing in South Yorkshire together with a requirement to finance future expenditure and to meet any unforeseen expenditure. The level of reserves required should reflect the potential risks facing the Commissioner together with an assessment of the scale and timing of planned and potential expenditure in the future.
- 35 The Chief Finance Officer has reviewed the position relating to reserves and a Reserves Strategy is attached at Appendix A. This shows the overall level of reserves that are estimated to be available by 1 April 2015 and the call upon those reserves in 2015/16. The Strategy explains the distinction between earmarked and general reserves.

MEDIUM TERM FINANCIAL FORECAST

36. The Finance Settlement for 2015/16 was for one year only and there are no clear indications regarding the levels of funding from Government in future

years. The next spending review will take place in late 2015 after the general election and is expected to show the budget allocations to government departments for 2016/17 and potentially subsequent years.

- 37 Nevertheless, there is information currently available to suggest that further reductions in funding are likely to continue for the foreseeable future. The 2014 Autumn Statement set out the Government's intent to manage down the national deficit and to continue with the austerity budget programme well into the next Parliament. Real term cuts in departmental spending between 2015/16 and 2019/20 of over 14% are implied in the Autumn Statement.
- 38 A recent report by the Institute for Fiscal Studies (IFS) acknowledges that decisions about spending cuts beyond 2015/16 will be made by the next Government and that all three main political parties have announced fiscal plans that would differ from those set out in the Autumn Statement. The IFS has analysed these spending plans and provided a forecast of how these proposals may impact on resource allocations.
- 39 In previous spending reviews funding cuts have fallen disproportionately on some departments because of the protection given to areas such as health spending and overseas development (OD) budgets. The IFS has provided an analysis of how this may impact on "non-protected" departments if all parties honour their promises about protection for health, education and OD. By splitting departmental budgets between "resource" and "capital", building in the promised protection and then sharing out the proportional cuts equally between non-protected departments, the analysis implies that departments such as the Home Office would face budget cuts of 40% or more:

<u>Real Terms cuts in spending</u> <u>2015/16 to 2019/20</u>	Autumn Statement	Conservatives	Labour	Liberal Democrats
	%	%	%	%
Total Department Budgets	-14.1	-6.7	-1.4	-2.1
Assuming not protected:				
Home Office	-46.3	-18.7	-7.4	-14.6
Other (including DCLG)	-34.8	-13.1	-4.2	-9.5

- 40 There is scope for considerable uncertainty over how much individual government departments may receive given the range of variables including tax and benefit policies and the extent to which service areas are protected. However the overall conclusion highlighted in the IFS report is that "what

seems certain is that some departments will face large cuts – on top of those already delivered – regardless of the outcome of the general election”.

41 Given the potential scale of the funding reductions that police and crime reduction services in South Yorkshire are likely to face, the Commissioner and Chief Constable will need to develop To assist in this planning process and to provide a clear guideline for planning purposes, a number of assumptions have been made about the levels of funding, including government grant and council tax income, and the potential expenditure pressures. For the purposes of forecasting, the following has been assumed:

- Reduction in government grant of 5% in 2016/17 (i.e. at the same level as 2015/16) and 3% per annum thereafter
- Annual increase in council tax of 1.95%
- Annual pay awards of 1% and assumed inflationary increases of between 1% and 3% for individual elements of non-staff running costs.

42 Bringing these assumptions together, the forecast suggests that further reductions in spending of about £17m would again be required in 2016/17. The overall cumulative level of savings required would rise to approximately £49m by 2019/20.

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Total forecast reduction in funding	8.95	13.90	18.65	23.19
Total forecast increased costs	7.70	14.15	19.01	25.45
NET FORECAST REVENUE GAP	16.65	28.05	37.65	48.64

43 Further work will be undertaken over the coming months to refine the forecasts, particularly around the estimates for inflations and the full year effect of those savings proposals agreed for 2015/16. Given the scale of the forecast revenue “gap” for 2016/17 and the likelihood of ongoing reductions in spending being required over the medium term, it is recommended that planning for 2016/16 begin before April 2015.

CAPITAL PROGRAMME AND FINANCING

44 To secure the necessary operational efficiencies in policing over the medium term, it is necessary to invest in new technology, buildings and equipment.

The capital programme for 2015/16 amounts to £27.4m. The financing of this expenditure is set out below:

	Original Budget 2014/15	Revised Budget 2014/15	Forecast Budget 2015/16
	£000	£000	£000
CAPITAL FINANCING			
External Grant (HO Grant)	2,550	2,550	2,088
External funding		1,728	1,028
Capital Receipts	514	900	727
Capital Reserve		3,550	3,724
RCCO (from Reserves)	4,172	2,444	4,313
Borrowing	8,158		15,525
OVERALL TOTAL	15,394	11,172	27,405
PLANNED CAPITAL SPENDING	15,394	11,172	27,405

- 45 The proposed capital programme comprises three key elements:
- Ensuring equipment is replaced at the most efficient time in its lifetime in line with the agreed Asset Management Strategy, Information Systems Strategy and Vehicle Fleet Strategy.
 - Ensuring the estate is fit for purpose and sustainable and developed in accordance with the commissioners accommodation strategy
 - Supporting and investing in new technology which will allow the force to deliver a better service at reduced cost.
- 46 In the forthcoming year the key developments being funded are the implementation of the Custody Strategy, which will see a new custody facility built for Rotherham and Sheffield at Shepcote Lane Sheffield. This will be followed by the building of a new custody suite on the existing Barnsley Police Station site.
- 47 The Commissioner is ensuring that the vehicle fleet gets replaced in line with the regionally agreed optimum replacement cycles and is also funding the implementation of telematics technology to facilitate better operational operational and fleet management.

- 48 In order for the Force to transform itself to deliver better service with less resources there is an ambitious joint programme of IS investment with Humberside Police which has 5 principal programmes of change:

Contact/Customer Management – Delivering a single integrated customer contact and relationship management environment to improve contact with the public and allow the public to contact the forces using digital media.

Criminal Justice/Crime Management – Delivering a single-integrated environment for detecting and managing crime, custody, the prosecution process, and protecting vulnerable people.

ERP – Providing an integrated Finance, Human resource, Duty Management and procurement system to enable our resource management to be more accurate and provided at less cost.

Infrastructure - To have a single more resilient IT infrastructure to underpin the operational activity of both forces and reduce both the capital and revenue costs of its provision.

Mobility - Delivering a complete mobile environment to support operational officers in any location for all policing functions. This will enable officers to spend a greater proportion of their time in the community and deliver a higher quality service to the public.

TREASURY MANAGEMENT STRATEGY

- 49 The financing arrangements relating to the capital programme are set out in the Treasury Management Policy Strategy and Prudential Indicators attached at Appendix C.

ROBUSTNESS OF ESTIMATES

- 50 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. This statement is set out in Appendix D.

APPENDIX A

RESERVES STRATEGY 2015/16

Introduction

1. This appendix sets out the latest position in relation to the level of the Commissioner's reserves and the strategy regarding the use of reserves in future years. It is a statutory requirement that the Chief Finance Officer presents a report to the Commissioner, as part of the budget process, which assesses the adequacy of reserves in the context of corporate and financial risks facing the Commissioner and the Force.
2. This Reserves Strategy has therefore been considered by the Commissioner in setting the 2015/16 budget, capital programme and council tax precept. The Strategy sets out the purpose of the general reserve and earmarked reserves and the recommended approach for their use in the medium term.

Purpose of Reserves

3. The Commissioner holds Reserves which fall into two distinct categories
 - General Reserves: these are necessary to fund 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 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.
4. The required level of reserves needs to be assessed against the potential risks that face the Commissioner and the Force in 2015/16 and beyond. This assessment is even more important in the context of the significant and sustained cuts in central government funding in the five years from 2011/12 to 2015/16, and the likelihood of continued cuts thereafter.
5. The factors that need to be considered will include the financial risks associated with:
 - The deliverability of savings proposals within the intended year of implementation
 - The potential for additional demand led pressures and costs:

- The likelihood of any additional government funding to offset unforeseen or unbudgeted expenditure
 - The nature of any historic events and potential liabilities arising from these events e.g. including the legacy issues associated with Hillsborough, Orgreave and cases of child sexual exploitation.
6. Reserves can be used temporarily to fund services and this will be reviewed as part of the budget strategy. However reserves are one off funds and using them to meet recurring expenditure will only delay the need to secure savings. Once used, reserves are then not available to support future years. They are therefore most suited to covering one off unexpected costs including expenditure that funds initiatives that will generate efficiencies in the future (on an invest to save basis) or costs that are likely to be incurred in the future but where the level and timing is uncertain (e.g. legal or other claims against the Commissioner/Force).
 7. There is no nationally recognised measure of the level of reserves that should be maintained. As a broad rule of thumb, the Audit Commission (in its 2012 report "Striking a Balance") suggested that most Chief Finance Officers regard an amount of "between 3% and 5%" of net revenue spending as a prudent level for general reserves. However the required level is a matter of judgement based on known/estimated risks, budgetary pressures and local factors.

Earmarked Reserves

8. The Earmarked Reserves that currently exist are set out below:

Revenue Grants Reserve: any grant that has not been used to fund related expenditure has been taken to this reserve and used to fund expenditure when it is incurred in future years.

Transition Reserve: to meet any costs associated with the transfer of functions from the South Yorkshire Joint Secretariat to proposed provision within the Office of the PCC and/or with other bodies.

Partnership Reserve: underspends on commissioning budgets have been carried forward for use in the following year.

Insurance Reserve: this represents sums set aside to fund potential liabilities under current insurance arrangements.

Innovation Reserve: this represents amounts set aside to fund innovation initiatives and investment in schemes that will improve efficiency and reduce operating costs.

Devolved Budget 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 the following year

Capital Reserve: this represents amounts set aside to support the Commissioners capital investment programme

Current and planned level of reserves

9. At the start of the 2014/15 financial year the total level of reserves stood at £47.6m including £13.8m of general reserves. There has been movement during the financial year involving the use of approximately £11m from reserves to fund expenditure, particularly capital expenditure. Anticipated underspends of £2.7m in 2014/15 are now included in the forecast year end position.
10. The budget for 2015/16 continues the approach set out in the Medium Term Financial Strategy (MTFS) to support capital expenditure with contributions from Reserves. The overall use of Reserves in 2015/16 amounts to approximately £11m including:
 - Funding of £4.3m from general reserves to support capital financing costs and the financing of capital expenditure in 2015/16
 - Funding of £1.5m from the Partnership Reserve to support partnership activity
 - Funding of £0.7m from the Insurance Reserve
 - Funding of £3.7m from the Capital Reserve
11. The estimated position at 31 March 2016 is that total reserves will stand at £29m as set out below:

	Forecast Balance at 31/3/15	Planned Contributions in 15/16	Forecast Balance at 31/3/16
RESERVES	£000	£000	£000
General Reserve balance at 31/3/14	10,182	-4,982	5,200
<u>Earmarked Reserves - Revenue</u>			
PCC transition reserve	250		250
PCC Partnership Reserve	1,500	-1,500	0
PCC Innovation Reserve	2,000		2,000
Insurance Reserve	10,296	-725	9,571
Devolved Budgets	3,900		3,900
<u>Earmarked Reserves - Capital</u>			
Capital Reserves	12,209	-3,724	8,485
Total Earmarked	30,155	-5,949	24,206
OVERALL TOTAL	40,337	-10,931	29,406

12. The level of General Reserves are estimated to be approximately £5m by 31 March 2016. This would represent about 2% of the net revenue budget for 2015/16 which is below the broad rule of thumb of "between 3% and 5%" referred to earlier. Although this measure can only be regarded as a guide, it does suggest that the overall level of General Reserves is low. This does not necessarily mean that General Reserves are inadequate and the overall level must be kept under review as part of medium term planning and the monitoring of risks.

Adequacy of Reserves

13. The view of the Chief Finance Officer is that general reserves are low but not inadequate. However there are a number of uncertainties about the potential for significant cost in the future which, if realised, could present a call upon reserves that may cast doubt as to the adequacy of the current level. This is particularly the case with the legacy issues – Hillsborough, Orgreave, child sexual exploitation and others – and the potential for these to ultimately lead to civil claims against South Yorkshire Police and the Commissioner.
14. At the present time it is unknown as to whether there will be any liability in respect of these issues and if there is liability, the potential scale cannot be accurately determined. It will therefore be crucial that reserves are managed in

the medium term involving an ongoing assessment of the magnitude of the legacy issues and balancing this with the need for prudent financial provision for the future.

APPENDIX B

Medium Term Forecast: 2016/17 to 2019/20

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
<u>Grant reductions:</u>				
Reductions in Police Grant & RSG (5%)	8.95	8.95	8.95	8.95
Reductions in Police Grant & RSG (3.5%)		5.95	5.95	5.95
Reductions in Police Grant & RSG (3.5%)			5.75	5.75
Reductions in Police Grant & RSG (3.5%)				5.54
<u>Council Tax income:</u>				
Assumed 1.95% annual increase	-1.00	-2.00	-3.00	-4.00
Removal of one off items - Collection Fund surplus	1.00	1.00	1.00	1.00
<u>Constabulary Expenditure increases:</u>				
Inflation, Pay Awards and other contractual increases	6.38	12.83	17.69	24.13
<u>Potential additional items:</u>				
Reduction in specific grants (based on MTFS)	0.20	0.20	0.20	0.20
Capital Financing costs (based on MTFS)	0.80	0.80	0.80	0.80
Add back use of reserves	0.32	0.32	0.32	0.32
TOTAL	16.65	28.05	37.65	48.64
Year-on-year movement	16.65	11.40	9.60	10.99

APPENDIX C

TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2015/16 INCLUDING PRUDENTIAL INDICATORS

1. INTRODUCTION

Background

1.1 Treasury management is defined as:

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

1.2 The first main function of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Commissioner's low risk appetite, providing adequate liquidity initially before considering investment return.

1.3 The second main function of treasury management is the funding of the Commissioner's capital plans. These capital plans determine the borrowing need of the Commissioner, essentially the longer term cash flow planning to ensure that the Commissioner can meet capital spending obligations. The management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any existing debt may be restructured to meet the Commissioner's risk or cost objectives.

1.4 In summary, the Treasury Management activity therefore involves:

- ensuring that the Commissioner has sufficient cash available at any point in time (liquidity)
- investing any surplus cash available to generate investment income and borrowing temporarily if there is a shortfall in cash
- longer term borrowing to fund capital expenditure
- managing the risks of all of the above.

1.5 From April 2015, treasury management services will no longer be provided by officers of the South Yorkshire Joint Secretariat (SYJS). There will need to be a replacement service that manages the treasury management function on behalf of the Commissioner from 1 April 2015. As part of this transition, investment sums available for the Commissioner will be invested separately from 1 April 2015. In 2014/15 the Commissioner's investments were pooled with those of South Yorkshire Fire and Rescue Authority. Based on cash flow forecasts, the Commissioner is projected to have an average of between £50m and £60m to invest during 2015/16 depending on variations in cash flow.

Prudential Indicators

- 1.6 The CIPFA Prudential Code for Capital Finance in Local Authorities, which also applies to the Commissioner, provides a framework of decision making to support the system of capital investment in local authorities to ensure that:
- capital expenditure plans are **affordable**
 - all external borrowing and other long term liabilities are within **prudent** and **sustainable** limits
 - treasury management decisions are taken in accordance with **good practice**
 - the Commissioner is **accountable** by providing a clear and transparent framework, which highlights the risks involved in capital projects.
- 1.7 To demonstrate these objectives are fulfilled, the Prudential Code specifies arrangements for the all local authorities to set and monitor prudential indicators and impose limits for the current and next two years covering:
- affordability
 - prudence
 - capital expenditure, external debt and treasury management
- 1.8 The latest prudential indicators for 2014/15 are included within this document for approval by the Commissioner.

Reporting requirements

- 1.9 The Commissioner is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by a committee before being recommended to the Commissioner. This role is undertaken by the Independent Audit Committee.
- **Prudential and Treasury Indicators and Treasury Strategy** (this report) - The first, and most important report covers:
 - the capital plans (including prudential indicators)
 - a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time)
 - the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators
 - an investment strategy (the parameters on how investments are to be managed).
 - **A Mid Year Treasury Management Report** – This will provide an update with progress on the capital position, amending prudential indicators as necessary, and on whether treasury management activities are meeting the strategy together with any amendments to the strategy or policies.

- ***An Annual Treasury Report*** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Treasury Management Strategy for 2015/16

1.10 The strategy for 2015/16 covers two main areas, covering the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CLG Minimum Revenue Provision Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance:

- ***Capital Issues***
 - the capital plans and the prudential indicators
 - the Minimum Revenue Provision (MRP) policy.
- ***Treasury management Issues***
 - the current treasury position
 - treasury indicators which will limit the treasury risk and activities of the Commissioner
 - prospects for interest rates
 - the borrowing strategy
 - policy on borrowing in advance of need
 - debt rescheduling
 - the investment strategy
 - creditworthiness policy
 - policy on use of external service providers
 - scheme of delegation.

Member and Officer Training

- 1.11 The training needs of the Commissioner's treasury management staff is assessed on a regular basis. Key members of staff attend training courses, seminars and conferences, the majority of which are provided by Capita, as appropriate.
- 1.12 In addition, the Commissioner and members of the Audit Committee are encouraged to attend treasury management awareness / refresher sessions which have been provided for the last five years by Capita, the most recent of which was delivered in December 2014.

Treasury Management Consultants

- 1.13 The Commissioner uses Capita Asset Services Limited as its external treasury management advisors.
- 1.14 The Commissioner recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the external service providers.

1.15 The Commissioner also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Commissioner will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2. CAPITAL PRUDENTIAL INDICATORS 2015/16 to 2017/18

2.1 The Commissioner's capital programme is one of the key drivers of treasury management activity and is reflected in prudential indicators, which are designed to enable the Commissioner to confirm the affordability of capital expenditure plans.

CAPITAL EXPENDITURE

2.2 This Prudential Indicator is a summary of the Commissioner's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Prudential Indicator - Capital Expenditure					
	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Indicator	6,326	11,172	27,405	12,079	9,022

2.3 The table below summarises how the above capital expenditure plans are being financed by capital or revenue resources. Assumptions have been made on future levels of capital grants and receipts. Any shortfall of resources results in a funding need (borrowing).

	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Capital Expenditure	6,326	11,172	27,405	12,079	9,022
Financed by:					
- Capital Receipts	683	900	727	-	-
- Capital Grants	4,281	2,550	2,088	106	-
- Capital Reserve		3,550	3,724		
- Directly from Revenue	1,362	4,172	5,341	-	-
	6,326	11,172	11,880	106	-

Net Financing Required (Borrowing)	-	-	15,525	11,973	9,022
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BORROWING NEED (THE CAPITAL FINANCING REQUIREMENT)

- 2.4 In accordance with best practice, the Commissioner does not associate borrowing with particular capital schemes and adopts an integrated treasury management strategy. In day to day cash management, no distinction can be made between revenue cash and capital cash and external borrowing may arise as a consequence of all the financial transactions of the Commissioner.
- 2.5 In contrast, the Capital Financing Requirement (CFR) measures the Commissioner's underlying need to borrow. The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. Any capital expenditure in the above table at 2.3, which has not immediately been paid for, will increase the CFR.
- 2.6 The Commissioner is required to pay off an element of its CFR each year through a revenue charge (the minimum revenue provision or MRP) and must approve an MRP Policy Statement (see 2.9 and Appendix 1) which sets out how he is going to do this. When MRP is set aside it therefore reduces the CFR.
- 2.7 The second prudential indicator is therefore the Commissioner's CFR as set out below:

Prudential Indicator - Capital Financing Requirement					
	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Indicator	32,841	31,673	46,093	55,207	60,248
Movement represented by:					
Net financing need for the year (see 2.3)		-	15,525	11,973	9,022
Less MRP		(1,168)	(1,106)	(2,859)	(3,981)
		(1,168)	14,419	(9,114)	5,041

- 2.8 The increases therefore reflect the net borrowing required to fund the capital programme, whereas the decreases reflect where sums set aside to repay debt exceed the net financing requirement for the year.

MRP POLICY STATEMENT

- 2.9 Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, equipment etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred; therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision (MRP), which was previously determined under Regulation, and is now determined under Guidance.
- 2.10 The Government issued guidance, which came into force on 31st March 2008, which requires that a Statement on the policy for the annual MRP should be submitted to the Commissioner for approval before the start of the financial year to which the provision will relate.
- 2.11 The Commissioner is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers different options under which MRP could be made, with an overriding recommendation that the Commissioner should make prudent provision to redeem his debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits.
- 2.12 The Minimum Revenue Provision Policy Statement for 2015/16 is attached at Annex 1.

AFFORDABILITY PRUDENTIAL INDICATORS

- 2.13 The previous sections cover the overall capital 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 Commissioner's overall finances.

- **Prudential Indicator - Ratio of financing costs to net revenue stream.**

This indicator identifies the trend in the cost of capital (capital financing costs less investment interest receivable including in the revenue budget) against the net revenue funding stream.

Prudential Indicator - Ratio of Financing Costs to Net Revenue Stream					
	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%
Indicator	2.1	3.1	3.7	2.5	3.1

The impact shown in 2014/15 to 2017/18 in the above indicator mainly reflects the use of direct revenue funding of capital expenditure rather than borrowing in those years.

- **Prudential Indicator - Incremental impact of capital investment decisions on Council Tax.**

This indicator identifies the revenue costs associated with proposed changes to the capital programme compared to the current plans. The assumptions are based on the budget but will invariably include some estimates, such as the future level of government grants. The additional revenue costs are converted into an incremental impact on the council tax. The impact is shown in both monetary and percentage increase terms.

Prudential Indicator - Incremental Impact of Capital Investment Decisions on Council Tax			
	2015/16	2016/17	2017/18
	Estimate	Estimate	Estimate
Indicator	£0.42	£2.24	£2.59
	0.3%	1.5%	1.8%

3. TREASURY MANAGEMENT STRATEGY

PROSPECTS FOR INTEREST RATES

3.1 The Commissioner has appointed Capita Asset Services Limited (formerly Sector Treasury Services Ltd) as treasury advisors and part of their service is to assist the Commissioner to formulate a view on interest rates. The following table, issued on 12 February 2015 gives the Capita central view of future interest rates:

	Mar 15	Jun 15	Sep 15	Dec 15	Mar 16	Jun 16	Sep 16	Dec 16	Mar 17	Jun 17	Sep 17	Dec 17	Mar 18
	%	%	%	%	%	%	%	%	%	%	%	%	%
Bank Rate	0.5	0.5	0.5	0.5	0.75	0.75	1.0	1.25	1.25	1.50	1.50	1.75	2.0
5 yr PWLB	2.1	2.2	2.3	2.5	2.6	2.7	2.8	3.0	3.1	3.2	3.3	3.4	3.5
25 yr PWLB	3.3	3.4	3.6	3.8	3.9	4.0	4.2	4.3	4.4	4.5	4.6	4.6	4.7
50 yr PWLB	3.3	3.4	3.6	3.8	3.9	4.0	4.2	4.3	4.4	4.5	4.6	4.6	4.7

3.2 UK GDP growth has surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains stong by recent standards

and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established.

- 3.3 A major factor on the UK economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 0.5% in December 2014, the lowest since September 2002. Inflation is expected to stay around or below 1% for the best part of a year which will help improve consumer disposable income and so underpin economic growth during 2015.
- 3.4 The level of labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.
- 3.5 This challenging and uncertain economic outlook has several key treasury management implications:
- The effects of the results of the January 2015 Greek general election which brought a party to power which is anti EU and austerity. Discussions have taken place within the Eurozone in order to minimise any immediate effects of the election result, however the indirect effects of the likely strengthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify.
 - In the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. The downturn in growth and inflation during the second half of 2014 and worries over the Ukraine situation, Middle East and Ebola have led to a resurgence of those concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done).
 - Investment returns are likely to remain relatively low during 2015/16 and beyond, due to both market conditions and the decision by the Coalition Government to further extend the Funding for Lending Scheme through to 29 January 2016.
 - Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future, when authorities will not be able to avoid

new borrowing to finance new capital expenditure and/or refinance maturing debt

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

CURRENT PORTFOLIO POSITION

- 3.6 The following table shows the Commissioner's current actual and forecast external debt, measured against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
External Debt					
Debt at 1 April		28,797	28,746	31,720	44,970
Repayment of Borrowing		(51)	(26)	(750)	(600)
Forecast New Borrowing		-	3,000	14,000	10,000
Debt at 31 March	28,797	28,746	31,720	44,970	54,370
CFR	32,840	31,673	46,093	55,207	60,248
Under / (over) borrowing	4,043	2,927	14,373	10,237	5,878

- 3.7 The above table highlights the current borrowing strategy whereby it is anticipated that new borrowing will be postponed to later years in view of the risk of carrying high levels of cash. This is explained further in the Borrowing Strategy later in the report.
- 3.8 The actual level of investments at 31 March 2014 was £53m and the average level of investments held by the Commissioner for the current year (2014/15) to date is £51m. The projected average level of investments for 2015/16 is projected to be between £50m and £60m.
- 3.9 Within the prudential indicators there are a number of key indicators to ensure that the Commissioner's activities remain within well defined limits. One of these is that the Commissioner needs to ensure that total debt does not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.
- 3.10 The Director of Finance reports that the Commissioner complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

The Operational Boundary.

- 3.11 This is the limit beyond which external debt is not normally expected to exceed. It must take into account all borrowing not just that for capital purposes, including the transferred debt that is managed on behalf of the Commissioner by Rotherham MBC. It is based on an estimate of the most likely, prudent but not worst-case scenario, with sufficient headroom over and above this to allow for operational management such as unusual cash movements or borrowing earlier than anticipated.
- 3.12 The Operational Boundary is set out below:

Treasury Limit - Operational Boundary for External Debt				
	2014/15	2015/16	2016/17	2017/18
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
-Borrowing	35,923	38,474	52,500	60,500
-Other long term liabilities	3,077	3,526	3,500	3,500
Total	39,000	42,000	56,000	64,000

The Authorised Limit for external debt.

- 3.13 A further key prudential indicator represents a control on the maximum level of borrowing, including transferred debt. This represents a limit beyond which external debt is prohibited. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control borrowing although this power has not yet been exercised.
- 3.14 The Authorised Limit is set out below:

Treasury Limit - Authorised Limit for External Debt				
	2014/15	2015/16	2016/17	2017/18
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
-Borrowing	43,923	46,474	60,500	68,500
-Other long term liabilities	3,077	3,526	3,500	3,500
Total	47,000	50,000	64,000	72,000

- 3.15 Both limits must separately identify borrowing from other long term liabilities such as leasing, and the Commissioner is requested to delegate authority to the Treasurer to effect movement within the total limit in accordance with option appraisal and best value for money for the Commissioner.

BORROWING STRATEGY

3.16 The Commissioner has the following borrowing requirement:

	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
New Borrowing to fund capital investment (from 2.3)	-	15,525	11,973	9,022
Replacement Borrowing	-	-	-	-
Previous years under / (over) borrowed	4,043	-	-	-
Less Set Aside to repay debt (MRP)	(1,168)	(1,106)	(2,859)	(3,981)
Total Borrowing Requirement	2,875	14,419	9,114	5,041

3.17 The total estimated borrowing requirement over the four year period is £31.449m of which £4,043m is to cover underborrowing in previous financial years with the balance of £27.406m required to finance new capital schemes.

3.18 The Commissioner is currently maintaining an under-borrowed position (see paragraph 3.6). This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt since cash supporting the Commissioner's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high.

3.19 It is likely that this strategy will continue in 2015/16. However, short term savings, by avoiding new long term external borrowing in 2015/16 will also be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when Public Works Loans Board (PWL) long term rates are due to be significantly higher.

3.20 Against this background and the risks within the economic forecast, caution will be adopted with the 2015/16 treasury operations. The Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
- *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, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.*

TREASURY MANAGEMENT LIMITS ON ACTIVITY

3.21 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance.

3.22 The treasury indicators are:

- **Upper limit on Fixed Interest Rates** - The Commissioner's upper limit on principal sums outstanding in respect of borrowing at fixed interest rates is £64m for the period 2015/16 to 2017/18. This enables the Commissioner to have all external debt at fixed rates if it is regarded as best value to do so.
- **Upper limit on Variable Interest Rates** - The Commissioner's upper limit on principal sums outstanding in respect of borrowing at variable interest rates is £16m for the period 2015/16 to 2017/18. This would allow the Commissioner to have a maximum of 25% of its external debt at variable rates if it is regarded as best value to do so.
- **Maturity Structure of Borrowing** - This indicator is designed to be a control over the Commissioner having a large concentration of fixed rate debt maturing and needing to be replaced at times of uncertainty over interest rates. It is recommended that the Commissioner set the following limits on the amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of the total projected borrowing:

	Upper Limit	Lower Limit
Under 12 Months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	25%

POLICY ON BORROWING IN ADVANCE OF NEED

3.23 The Commissioner 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 Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Commissioner can ensure the security of such funds.

DEBT RESCHEDULING

- 3.24 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).
- 3.25 The reasons for any rescheduling to take place will include:
- the generation of cash savings and / or discounted cash flow savings
 - helping to fulfil the treasury strategy
 - enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
- 3.26 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.
- 3.27 All rescheduling will be reported to the Commissioner / Audit Committee as part of the updated reports.

4. ANNUAL INVESTMENT STRATEGY

INVESTMENT POLICY

- 4.1 The Commissioner's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Commissioner's investment priorities are:
- the **security** of capital
 - the **liquidity** of investments.
- 4.2 The Commissioner will also aim to achieve the optimum return in its investments commensurate with proper levels of security and liquidity. The risk appetite of the Commissioner is low in order to give priority to the security of its investments.
- 4.3 The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Commissioner will not engage in such activity.
- 4.4 In accordance with the above, and in order to minimise the risk to investments, the Commissioner has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agency. Using the Capita Asset Services

Limited ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

- 4.5 Further, the Commissioner's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector with regard to economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Commissioner's officers will engage with their advisors to maintain a monitor on market pricing such as "Credit Default Swaps" (CDS) and overlay that information on top of the credit ratings. This is encapsulated within the credit methodology provided by the advisors, Capita Assets Services Limited.
- 4.6 The aim of the strategy is therefore to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.
- 4.7 Under Government guidance, **specified investments** are categorised as those offering both high security and high liquidity and must be sterling dominated, maturing in less than 1 year and be made either with UK Government, local authorities or institutions with high credit ratings as determined by the Commissioner. The list of proposed specified investments is set out in paragraph 4.15.
- 4.8 All other investments which do not meet the above definitions are therefore **non-specified investments** and are regarded as potentially higher risk. In view of this the Commissioner will not currently use non-specified investments.

CREDITWORTHINESS POLICY

- 4.9 Credit ratings are assessments by professional organisations of an entity's ability to punctually service and repay debt obligations - the likelihood of getting any sums invested with it back. An overall perspective of an institution's creditworthiness can be gained from looking at a combination of credit ratings:
- **Short term rating** which looks at a counterparty's ability to meet financial commitments due within the next twelve months
 - **Long term rating** which looks at the counterparty's ability to meet its financial commitments over a longer time span
 - **Viability rating** - this represents the capacity of the counterparty to maintain ongoing operations and avoid failure
 - **Support rating** assesses whether it would receive support if it ran into difficulties. At the time of writing, the credit agency Fitch has started assessing its Support ratings with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon". This follows the Bank of

England and European Bank reports that no financial institution is "too big to fail" and that Government intervention may not always be in the interests of the taxpayer in the future.

4.10 The Commissioner applies the creditworthiness service provided by Capita Asset Services Limited. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Pools. The credit ratings of counterparties are supplemented with the following overlays:

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

4.11 The end product of this modelling approach is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used to determine the duration for investments. The Commissioner will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour - Not to be used

For example, a counterparty that is coloured green in Capita Asset Services Limited's weekly credit list indicates that it is suitable for investment for up to a 100 day period; a red colour would indicate that it is suitable for investment for up to 6 months. If a counterparty has no colour, then no investments should be placed with them.

4.12 This methodology does not apply the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. The Capita creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

4.13 All credit ratings will be monitored on weekly basis and officers are alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service on a daily basis.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Commissioner's minimum criteria, its further use as a new investment will be withdrawn immediately.

- In addition to the use of credit ratings the Commissioner will be advised of information in movements in Credit Default Swap and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Commissioner's lending list.

4.14 The Treasurer will maintain a counterparty list in compliance with the Capita methodology set out above which includes utilisation of the following criteria to provide a pool of high quality investment counterparties:

- UK Banks – the Commissioner will only use banks which have as a minimum a Short Term rating of F1 or equivalent and a Long Term Rating of A- or equivalent.
- Part nationalised banks – Lloyds Bank and Royal Bank of Scotland groups. These banks can be included if they continue to be part nationalised or they meet the ratings above.
- The Commissioner has used the Co-operative Bank since being elected for transactional purposes only, and in accordance with the requirements of the Co-operative Bank, since its restructure, are expected to be closed by 31 March 2015. The new bank for transactional purposes from 1 April 2015 is likely to be Lloyds Bank although this is not confirmed at the present time.
- Non UK banks domiciled in a country with a minimum sovereign credit rating AAA (or equivalent UK sovereign rating) and minimum credit rating as for UK banks (limited to overnight only)
- The Commissioner will only use Building Societies that meet the above credit rating criteria as set out for banks
- Money market funds – Long Term Credit rating – AAA
- UK Government (including Debt Management Agency Deposit Facility (DMADF))
- Local Authorities / Parish Councils

SPECIFIED INVESTMENTS

4.15 The proposed list of specified investments for the Commissioner is shown below:

Counterparty	Minimum 'High' Credit Criteria	Maximum Maturity Period
UK Government including DMADF	N/A	1 year
UK Government Treasury Bills	UK sovereign rating	1 year
Local Authorities	N/A	1 year
Banks and building Societies - term deposits (including Lloyds Bank – currently part nationalised but there are plans to sell some or all of the remaining Government holding during 2015/16)	Green	100 days
Part nationalised UK banks –Royal Bank of Scotland	Blue	1 year

if it continues to be part nationalised or meet the minimum high credit criteria

Money Market Funds

AAA

Overnight

- 4.16 The approved strategy for 2014/15 included a restriction that investments placed with foreign banks were to be limited to overnight only and it is proposed that this is continued as part of the strategy for 2015/16.
- 4.17 The use of UK Treasury Bills in local authorities remains popular due to lack of space with counterparties and the higher interest rates than the Debt Management Office. In order to invest in Treasury Bills, there needs to be a custodian facility set up as the Commissioner cannot deal directly. A custodian facility is available through Capita, with King and Shaxson who would arrange the deals on the Commissioner's behalf, if required.
- 4.18 The current year's strategy includes a restriction on all investments with banks and building societies to a 100 day period with the exception of UK part nationalised banks (except Lloyds bank), UK government and local authorities which have a limit of up to up to 1 year. It is proposed to retain this limit for 2015/16.

Specified Investment Limits

- 4.19 Due to the splitting up of the "pooled" investments with the Fire Authority on 1 April 2015 and the Commissioner funds being invested separately it is proposed the limits on investments are as follows:

UK Part Nationalised Banks

- The limit of investment with any one institution is £20m on behalf of the South Yorkshire Police and Crime Commissioner in the 2014/15 treasury management strategy. In view of the Commissioner investments being placed separately from 1 April 2015, it is proposed that this will be reduced to £15m in the 2015/16 treasury management strategy.
- To reduce risk exposure, the limit on any one banking group is currently £25m. It is proposed that this will be reduced to £20m in the 2015/16 treasury management strategy.

Other Counterparties

- The limit of investment with any one institution is £10m on behalf of the South Yorkshire Police and Crime Commissioner in the 2014/15 treasury management strategy. It is proposed that the limit of £10m will be maintained in the 2015/16 treasury management strategy.
- To reduce risk exposure, the limit on any one banking group is currently £20m. It is proposed that the limit of £20m will be maintained in the 2015/16 treasury management strategy.

INVESTMENT STRATEGY

4.20 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).

4.21 Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2015/ 2016 0.75%
- 2016/ 2017 1.25%
- 2017/ 2018 2.00%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

Investment treasury indicator and limit - total principal funds invested for greater than 1 year. These limits are set with regard to the Commissioner's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. There are no plans to invest for periods of greater than 1 year.

End of year investment report

4.22 At the end of the financial year, the Commissioner will report on its investment activity as part of its Annual Treasury Report in accordance with the CIPFA Treasury Management Code.

POLICY ON THE USE OF EXTERNAL SERVICE PROVIDERS

4.23 The Commissioner uses Capita Assets Services Limited (formerly Sector Treasury Services Limited) as its external treasury management advisors.

4.24 The Commissioner recognises that responsibility for treasury management decisions remains with the Commissioner at all times and will ensure that undue reliance is not placed upon our external service providers.

4.25 The Commissioner also recognises that there is value in employing external providers of the treasury management services in order to acquire access to specialist skills and resources. The Commissioner will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

SCHEME OF DELEGATION

4.26 The Commissioner will:

- receive and review reports on treasury management policies, practices and activities
- approve the annual strategy
- approve amendments to the adopted clauses within Financial Regulations, and the treasury management policy statement

4.27 The Independent Audit Committee will:

- scrutinise, and make recommendations to the Commissioner on the treasury management strategy and policies, and monitor the implementation of policies and practices.
- receive and review regular monitoring reports.

4.28 Treasury Management Role of the Treasurer:

The Treasurer has overall responsibility for the execution and administration of treasury management decisions and will be responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- the appointment of external service providers.

MINIMUM REVENUE PROVISION POLICY STATEMENT 2015/16

1. The Minimum Revenue Provision (MRP) is a statutory charge relating to the repayment of debt and until 2007/08, the basis of the calculation was specified as 4% of the capital financing requirement, which represents the Commissioner's underlying need to borrow for capital expenditure.
2. The Local Authorities (Capital Finance and Accounting)(England) Regulations 2008 came into force on 31 March 2008 and replaced the above statutory calculation with a more general duty for the Commissioner to make an amount of MRP which the Commissioner considers "prudent".
3. Prudent provision is not defined within the Regulations but the guidance sets out several options which could be considered, although the overriding principle is that the charge to revenue should be linked to the lives of the assets funded by borrowing.
4. MRP commences in the year following the one in which the capital expenditure is incurred.
5. In accordance with the guidance, the MRP policy recommended for 2015/16 is as follows:
 - a) For capital expenditure incurred before 1 April 2008, MRP will be based on 4% of the Capital Financing Requirement
 - b) For capital expenditure incurred after 1 April 2008, for which borrowing is undertaken, MRP will be calculated based on equal annual instalments over the estimated life of the asset. The estimated life of each asset will be assessed each year based on the type of expenditure.
 - c) MRP will be deferred for new capital projects until the year after the asset is complete and therefore operational rather than the year in which the capital expenditure is undertaken. This approach is beneficial for building projects which take more than one year to complete.

ROBUSTNESS OF ESTIMATES

APPENDIX D

1. 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 the financial reserves.
2. Information relating to the availability of financial reserves and the Chief Finance Officer's assessment of the adequacy of those reserves is set out in the Reserves Strategy. The Reserves Strategy refers to the potential risks that face South Yorkshire and the potential for the legacy issues to present a significant future cost.
3. The proposed budget for 2015/16 and the savings proposals that underpin the budget have been formulated against the backdrop of continued significant reductions in funding. In terms of the process for concluding the budget, the Chief Constable has been involved in the refresh of the Police and Crime Plan and has been able to ensure that the proposed budget supports the delivery of the priorities set out in the plan.
4. During the 2015/16 financial year the implementation of the savings proposals will require a robust monitoring process. It is likely that further reductions in funding will continue for the foreseeable future and work will need to commence as soon as possible on the identification of savings proposals for 2016/17. The decisions relating to the Strategic Partnership with Humberside Police will be a crucial component in delivering a balanced budget in future years.
5. On the basis of the estimates included in the proposed budget and the calculation of the proposed precept, the Chief Finance Officer is reasonably satisfied that these have been prepared on a robust basis and involve sound assumptions.
6. The Chief Finance Officer does however have particular concern about the potential costs associated with the Hillsborough inquests and the assumptions that have been made in determining the budget and precept for 2015/16. Ahead of the inquests which were opened in March 2014, the Commissioner agreed to provide financial assistance to former officers which were 'interested persons' under Home Office Circular 43/2001 to enable them to have legal representation at the inquests. The Chief Constable is also a designated 'interested person' in the inquests by virtue of his role and the Force budget is also supporting costs of his legal representation.
7. The assumption relating to these potential costs has been that they will be offset by reimbursement under a Special Grant from the Home Office and that there will not be an impact on the net revenue budget for 2015/16. The Home Secretary decided to award a Special Grant in June 2014 but the level of reimbursement is due imminently in respect of costs incurred to date and is not likely to be the full amount claimed. This will mean a reduction in the estimated level of Reserves at 31 March 2015 as stated in the Reserves Strategy.
8. For the financial year beginning in April 2015, the imminent decision of the Home Secretary on reimbursement levels under the existing Special Grant application will determine the principles on which future Special Grant applications can be submitted by the Commissioner and how they will be determined. However it appears likely that – based on Government department budgets for 2015/16 announced by the Chancellor of the

Exchequer - the amount of funding available to the Home Secretary for Special Grant applications will be severely limited and may potentially be less than the amount sought by the Commissioner to meet our costs.

9. The position outlined will have a significant bearing on the ability of the Commissioner and the Chief Constable to deliver a balanced budget position in 2015/16. The following sections assess the potential size of these costs and how these may impact on the financial position.

Legal Representation for Chief Constable

10. In the period from March 2014 to October 2014, the cost of legal fees amount to approximately £1m and this has been the subject of a Special Grant application to the Home Secretary. As outlined above, the decision as to the level of reimbursement is awaited. For the purposes of estimating the reserves position at 31 March 2015, a Special Grant to the level of costs incurred to date has not been assumed and further costs to the year end (which are currently likely but the scale of which is unknown) have also not been assumed.

Legal Representation for former officers

11. To date the Commissioner's approval of financial assistance has involved four firms of solicitors to differing degrees and invoices have been received in respect of three of them. Further officers have also sought legal representation and seek financial support but whether each is granted such support and the extent of such support, is still to be determined by the Commissioner. It is also likely that the Inquests could run until the summer of 2016 which would mean that costs would run for the full duration of the 2015/16 financial year and beyond.

12. For the period from March 2014 to October 2014, the amounts paid by the Commissioner to two of the legal firms amount to approximately £11.8m. These amounts have been included in the Special Grant application to the Home Secretary. There have been invoices submitted by the third legal firm amounting to approximately £1.8m. This third firm represents 14 former officers with a further 88 to 200 officers seeking legal representation and final support. No decision has yet been made by the Commissioner as to the extent of financial assistance in respect of the original 14 officers and no decision has been made to grant applications to the further 88 to 200 officers.

13. On the advice of the Chief Executive and Solicitor, in March 2014 the Commissioner instigated an independent review of the costs' arrangements with firms to ensure they were reasonable and achieving a cost effective outcome for the public. This review involved commissioned legal support and internal audit support from two local authorities and has focused on the firms charging basis and arrangements.

14. The Home Secretary's June 2014 decision to award Special Grant was conditional: on there being a cap on hours claimed by counsel as well as a required hourly rate for solicitors and counsel, among other things. Discussions have taken place with the Home Office and with the legal firms to ensure that these conditions can be met where it makes sense to do so (i.e. it does not result in a higher costs being incurred). The final decision from the Home Secretary is awaited.

15. At the present time there are a number of uncertainties that make a reliable and robust estimate of the potential costs very difficult to produce. The potential legal costs arising from the Hillsborough Inquests in 2015/16 are likely to be a minimum of £7m based on a number of assumptions including a decline in legal support activity in the latter part of the 2015/16 financial year.

16. However the actual costs could be much greater than this figure, perhaps as much as double and maybe in the region £15m to £20m based on the level of costs incurred to date and including assumptions about costs incurred by other firms. As previously stated, the final position will depend to a large extent on the decisions of the Home Secretary on the amounts to be awarded.

17. The issue for the Commissioner is that these net costs are not included in the 2015/16 revenue budget and could place severe pressure on the already low level of general reserves. If the decisions of the Home Secretary are not favourable from a financial aspect, there may come a point where the Commissioner cannot provide further financial support because of the impact on reserves and his ability to maintain a viable police service in South Yorkshire. Such a scenario may have repercussions for the conduct of the Hillsborough Inquests.

Allan Rainford

Chief Finance & Commissioning Officer

Office of the South Yorkshire Police & Crime Commissioner