1. **PURPOSE OF THE REPORT**

The Police and Crime Commissioner (PCC) is required to approve the 2019/20 budget and issue the Council Tax precept by 1 March 2019.

2. **RECOMMENDATION**

To formally approve the following in accordance with the Local Government and Finance Act 1992:

a) A budget requirement for 2019/20 of £258.761m;
b) A detailed budget allocation as set out in Section 4 of the report;
c) A council tax increase equivalent to a £24 increase on a Band D property for 2019/20, as set out in Appendix 4;
d) The Reserves Strategy as set out in Appendix 5;
e) The Treasury Management Strategy and Minimum Revenue Provision policy statement (Appendix 6) and the recommendations contained therein;
f) A Capital Strategy and Programme for 2019/20 of £19.3m as set out in Appendix 7; and
g) To note the Chief Finance and Commissioning Officer’s statement on the robustness of estimates as set out in Section 5 of the report.

3. **BACKGROUND**

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 2019/20 budget priorities and precept increase proposed in this report have been consulted upon with the public, with the majority supporting (as detailed in the report to the Public Accountability Board on 29 January 2019) and previously debated and agreed at the following:

| Meeting of South Yorkshire Council Leaders | 28 January 2019 |
| Public Accountability Board | 29 January 2019 |
| Police & Crime Panel | 4 February 2019 |

3.3 The Police & Crime Panel (PCP) agreed to support the proposed precept for 2019/20 at its meeting on 4th February 2019. The full response from the PCP is attached at Appendix 1.

4. **SUMMARY OF 2019/20 BUDGET AND COUNCIL TAX PRECEPT**

4.1 The proposed budget for 2019/20 is summarised below. The revenue budget and Medium Term Resources Strategy (MTRS) to 2023/24 is attached at Appendices 2 and 3. This reflects the anticipated effect of inflation, cost pressures, growth, savings plans and the continued cost of the so-called legacy issues. A key development in the 2019/20 budget is investment into increasing police officer numbers by 55, the majority of which will provide increased visible presence in neighbourhood policing teams.
The final 2019/20 Police Finance Settlement was confirmed in January 2019. Government grant funding has been increased by £6.3m to £192.7m. The Home Office has provided additional grant funding towards the increased employers’ pension contributions payable for police officers pensions from 2019/20. The cost of the pensions increase to South Yorkshire has been estimated at £5.8m in 2019/20. There remains a question as to whether £2.6m of the increased grant is recurrent. The Home Office’s position is that this will be clarified in the ongoing Spending Review for 2020/21 onwards.

The Spending Review is due to be finalised during 2019 but there is a risk that Brexit may compromise government departments’ capacity to support anything more substantial than a one year rollover of current resource allocations into 2020/21. The CFOs of PCCs and police forces have agreed a common planning assumption to include the full value of the grant uplift in baselines for 2020 onwards, with the risk of non-recurrence identified.

The Council Tax referendum principles for 2019/20 allow PCCs to increase the precept on Band D properties by up to £24 for the year. For South Yorkshire, this represents an increase of 14% and would produce a Band D Council Tax of £194.16 (£170.16 in 2018/19). Only 7% of properties in South Yorkshire are in Band D. 75% of South Yorkshire properties are in Bands A and Band B, equating to increases of £16.00 and £18.67 respectively. This would generate total Council Tax income of £70.5m for 2019/20, an increase of approx. £9.4m, with growth in local authorities’ property numbers (the Council tax base) and share of collection fund surpluses included.

However, the proposed increase in precept of £24 for the year on a Band D property will not cover the budget gap due to £7.1m of legacy costs. Therefore the use of £2.6m reserves will be required to balance the revenue budget to the total available grant and precept income of £263.2m.

ROBUSTNESS OF ESTIMATES

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. The draft 2019/20 budget reflects the final Home Office financial settlement proposals for grant and Council Tax precept. The latter has been shared with the four South Yorkshire local authorities. The draft expenditure budget has been discussed and reviewed by the PCC and Chief Constable, and their respective senior leadership teams, through the Planning and Efficiency Group, prior to publication for the Public Accountability Board of 29th January and Police and Crime Panel of 4th February.

The 2019/20 budget assumes £4.0m of budget savings which will require effective management to ensure full delivery in the year, summarised in Appendix 3. During 2018/19 the PCC asked for...
additional oversight by a Planning and Efficiency Group to ensure SYP effectively programme managed the delivery of its savings programme, with £5.7m of the £6.1m forecast to be delivered in 2018/19. It was hoped that the Joint Independent Audit Committee would complement these arrangements with assurance activity in this area. However, there has been some slippage with the undertaking of this assurance work. These arrangements will continue in 2019/20, with an increased emphasis on value for money as a key priority in the 2019 refresh of the Police and Crime Plan.

5.4 Regarding legacy issues, assumptions have been made about the potential scale and timing of expenditure and the potential levels of Special Grant support from Government, which have been shared with the Home Office. These are costs associated with South Yorkshire’s three legacy issues:

- the NCA’s investigation into non-recent CSE in Rotherham (Operation Stovewood)
- civil claims from Rotherham CSE victims and survivors
- civil claims arising from the Hillsborough disaster.

5.5 The cost of legacy issues between 2018/19 and 2023/14 is estimated to be £179m. Special Grant can be claimed from the Home Office. Under current rules, we could claim £149m of Special Grant, leaving a funding gap of £30m to be met from South Yorkshire’s budget. The 2019/20 legacy funding gap is expected to be £7.1m, requiring the use of reserves to balance the budget.

5.6 The Home Office was actively lobbied by the PCC and Chief Constable throughout 2018, but no change in funding rules has been announced yet. Therefore the 2019/20 budget and future projections in the MTRS are based on continued entitlement under the current Special Grant rules.

5.7 The Reserves Strategy is attached at Appendix 5 and refers to potential risks that face South Yorkshire, including legacy issues. With the current assumptions factored into the MTRS it is possible to sustain a level of general reserve at just over the prudent 5% minimum level required to 2023/24. However, all earmarked and capital reserves, except the Insurance Reserve, will be consumed in achieving a balanced budget each year. This may constrain potential further growth in police officer numbers and investment into systems and infrastructure to support both operational policing and more proactive ‘invest to save’ options to manage the impact of rising demand.

5.8 Also included is the 2019/20 Treasury Management Strategy Statement at Appendix 6 and a summary of the Capital Strategy and Programme for 2019/20 to 2023/24 at Appendix 7.

6. SUMMARY

6.1 It is recommended that the increase in precept, equivalent to £24 per annum on a Band D property, is levied to minimise the budget gap in 2019/20.

Michael Clements
Chief Finance & Commissioning Officer
Office of the South Yorkshire Police & Crime Commissioner
Dear Dr Billings

Proposed Council Tax Precept 2019/20

At the meeting of the Police and Crime Panel held on Monday 4th February 2019, Members voted unanimously to support the Council Tax Precept for 2019/20 as follows:

‘it is recommended that the Police and Crime Panel considers a proposed annual increase in Council Tax precept for 2019/20 of £24 for a Band D property (a 14% increase) to £194.16. This equates to an annual increase of £16.00 for a Band A property and £18.67 for a Band B property’.

In supporting the above recommendation the Panel made a request to the PCC which is captured in the Resolutions from the minutes below at iii):

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

i) Voted unanimously to accept the PCC’s increase in the Council Tax precept for 2019/20 of £24 for a Band D property (a 14% increase) to £194.16. For Band A properties this equated to an annual increase of £16.00 and £18.67 for Band B properties be approved.

ii) Recommended that the PCC would explore with the Chief Constable the recruitment of an additional 50 operational staff, in addition to the proposed 55 (40 of which would be deployed into neighbourhood policing).

iii) The PCC would provide this commitment to the Panel in writing, along with updates on progress

Yours sincerely

Cllr Abdul Khayum
Chair - South Yorkshire Police & Crime Panel
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<tr>
<th>Description</th>
<th>2019/20</th>
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<th>2021/22</th>
<th>2022/23</th>
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<td>Net Legacy Costs</td>
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## MEDIUM TERM RESOURCE STRATEGY - Further Details

### 1) Non Recurrent Budget Adjustment £
- Recruitment Step Up (430,764)
- IS - Connect (95,055)
- IS - Connect & Smart Contact - Shared Costs (74,863)
- Police 1% Non Consolidated Pay Award (409,806)
- Staff 1% Non Consolidated Pay Award (189,503)
- PCSOs 1% Non Consolidated Pay Award (24,704)
- IS - Smart Contact (213,472)
- Force Vetting Unit Officers (Band C) x2 & apprentice (28,134)
- 17/18 Recruitment Step Up (65,854)
- Contact Management approved Sept 17 (191,685)
- MAPPA Lead (1,429)
- Reduction in NRE rates for ISD and HR (250,000)

Total: (£1,975,069)

### 3) Unavoidable Cost Pressures £
- Police Staff Increments 239,886
- Bank Holiday Numbers 217,807
- Staff Pension Contribution Increase 425,637
- PCSOs' Increments (86,680)
- PCSOs' Pension Contribution Increase 57,127
- Increase in Pension Deficit recovery Lump Sum 66,700
- CPoSA 9,653
- Microsoft Enterprise License 717,659
- Staff Support Associations 15,000
- BC&I non pay budget 45,565
- RSSS Lot 5 Managed Service Forensic Costs 73,200
- Communications Data Budget 90,640
- ISD costs including Iken Case Management 6,997
- ISD Cost pressures 259,588
- Redundancy costs 800,000
- National IT Charges 152,000
- Atlas Court potential regrade 500,000
- IS Security team 26,949
- Police Pension 6.8% increase 5,816,118
- Smart Contact Support & Maintenance 150,833
- Healthcare in Custody (53,494)
- Football Adjustment - Income (14,136)
- Football Adjustment - Overtime 134,293
- Football Adjustment - Overtime - NI 56,948
- Football Adjustment - CCTV Links 25,608
- Football Adjustment - Mutual Aid (202,713)
- Data Protection Income 4,000
- Insurance - New Policy Cyber / Data Liability 40,000
- Increased PNC Charges for ANPR 88,137
- Volunteer Police Cadets - National VCP Team 5,000
- ISD Revenue Implications of Infrastructure Investr 22,729
- Bank Holiday Review Contingency 50,000
- Reduced Income ISD Recharges from HR de-colla 68,000

Total: (£9,809,051)

### Appendix 3

2) **2018/19 Savings Carried Forward** £
- Projected FYE Unachieved Savings as at Oct 2 469,970
- Smart Contact (395,382)
- SYF&R (66,120)
- 28,468

### 4) Growth £

#### Growth Committed 2018/19
- Taser (34,980)
- Protective Monitoring Software 36,440
- OSU Restructure / ARV Uplift 136,000
- Coroners Officers Posts 26,752
- DRIPA 29,299
- Disclosure Risk Assessor 12,203
- ESN Approved April 2017 (61,518)
- ESN Project Lead (39,800)

New Growth
- Body Worn Video 195,762
- GPS Buildd Tags 10,000
- Reasonable Adjustments 50,000
- Police Treatment Centre 5,000
- Contact Management 231,523
- Counter Corruption Growth Posts 112,800
- OHU Growth Posts 145,914
- Data Team & Data Warehouse 250,000
- Crime Prevention Staff Officer (Superintendent) 91,300
- L&D staff for Officer uplift 465,225
- Non Pay Costs for Officer Uplift 354,380
- Atlas Transition 814,300
- PSD Band D Growth Post 34,183
- COPaD Growth 79,676
- Agile Working Growth 88,524
- Unfunded Officers (15 AFP) 1,036,741
- Police Officer Uplift (40 AFP) 526,608

Total: (£4,596,342)

### 5) Transition £
- Original Cost - 18/19 and 19/20 1,962,870
- Remaining cost for 19/20 (311,100)
- To add back 1,651,770

### 6) Savings Changes £
- Police Officer Incremental Drift (2,881,091)
- Police Officer Non Devolved Allowances (155,066)
- Smart Contact (126,218)
- Telematics (69,977)
- Original Premises Savings (164,375)
- PCSO Vacancy Factor (555,429)

Total: (£3,952,158)
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|        |                     |                     |          | 616,142    | 100.0 |

Appendix 5

RESERVES STRATEGY 2019/20

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 and Commissioning 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.

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.

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 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 their 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.

Types of Reserves

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. A capital
reserve is currently held to support future transformation of both the estate and use of technology to enable a more efficient future operating model. See Appendix C 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 2019/20 and beyond. The Finance Settlement from Government in 2019/20 is for one year only and is the last before the next Spending Review, which will set long term police budgets and look at how resources are allocated fairly across police forces.

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 e.g. the impact of fracking,
- The likelihood of any additional government funding to 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).

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

**Reserves Balances 2019/20**

15. The balance as at 1 April 2018 for the total general and earmarked reserves was £44m. Of this, general reserves (£12m) were broadly 5% of the net revenue budget. The remaining reserves are all earmarked, £25m for revenue and £7m for capital.

16. The planned use of reserves in 2018/19 was £7.3m. However, the year end forecast at December 2018 predicts £1.2m will be contributed to reserves in the outturn. The reduction in the use of reserves is predominantly due to delays with SYP’s Crime Review and the change in forecasts for legacy issue costs that will now be incurred in later years.

17. In order to balance the 2019/20 budget, contributions from reserves of £2.6m are required. Spending in 2019/20 is forecast to be within the funding parameters. However, £7m is required to be released into the general reserve from the earmarked legacy reserve to fund expected legacy costs, based on the maximum Special Grant funding under the current rules from the Government.
Future Reserves Balances

18. There are significant risks and uncertainty 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.

19. Between 2018 and 2024 total reserves are expected to fall by £18m to £26.5m; with general reserve depleted of £14m (5%) and earmarked reserves of £12.5m at 31st March 2024, of which £11.4m is the Insurance Reserve. (See Appendix A). This assumes all earmarked reserves and the capital reserve are utilised to minimise the impact of Legacy costs under current Home Office Special Grant rules. Without this course of action, general reserves would be depleted to less than 2% by 2024. To mitigate this, further savings would be required from the Chief Constable’s budget. Appendix B shows the movement of reserves for South Yorkshire since 2012.

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. 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, 85% of these costs have been met by the Home Office through Special Grant funding. These costs have increased and will continue to 2023/24, at this time the level of Home Office support through Special Grant funding is unconfirmed for 2019/20 and onwards. 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 2019/20 budget and MTRS.

- **Civil Claims**: To assist budget setting, SYP’s Legal Services team provided forecasts for 2019/20 and future years regarding Hillsborough and historic CSE-related civil claims. Allowing for anticipated Home Office Special Grant under the current rules, the estimated net funding gap which South Yorkshire will have to resource is also reflected in the 2019/20 budget and MTRS.

21. The expected costs of legacy issues in 2019/20 and future years have been updated. Between 2018/19 and 2023/24 costs are expected to total £179m, with £149m 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 year only for CSE Civil Claims and the next five years for Hillsborough Civil Claims. Appendix A presents the updated movement of reserves over the MTRS period to 2023/24.
22. There is ongoing dialogue with the Policing and Fire Minister, 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. A formal response from the Home Office is awaited, and thus 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 2019/20 as part of medium term planning and the monitoring of risks.

**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. Appendix A, as previously stated, shows the movement of the earmarked reserves over the medium term and Appendix C details each of the earmarked reserves that are forecast to exist as at 1 April 2019, by the prescribed Home Office categories.

24. Appendix A presents a future forecast of reserves based on the 2019/20 MTRS, approved in January 2019. The strategy has assumed that in order to retain general reserves at 5%, or in a positive balance, all earmarked reserves and the capital reserve will be released to support the general reserves.

25. This will have an opportunity cost associated with it, in terms of constraining investment in transformation to the estate or in technology that would support the successful operation of a more efficient operating model. Additionally, to maintain the general reserves to 5%, savings from the revenue policing budget would be required, potentially impacting on the policing service in South Yorkshire. Hence dialogue remains open with the Home Office regarding certainty of 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.

Michael Clements  
Chief Finance and Commissioning Officer
## Appendix A

### Reserves Forecast 2019-2024

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>General Reserves</td>
<td>12,287</td>
<td>179</td>
<td>12,476</td>
<td>6,645</td>
<td>16,921</td>
<td>2,950</td>
<td>19,871</td>
<td>198</td>
<td>20,049</td>
<td>-5,510</td>
<td>14,539</td>
<td>-489</td>
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<td>Rev Grant</td>
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<td>0</td>
<td>3</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>PCC Commissioning</td>
<td>847</td>
<td>0</td>
<td>847</td>
<td>0</td>
<td>847</td>
<td>0</td>
<td>847</td>
<td>0</td>
<td>847</td>
<td>0</td>
<td>847</td>
<td>0</td>
</tr>
<tr>
<td>PCC Innovation</td>
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<td>29</td>
<td>2,029</td>
<td>0</td>
<td>2,029</td>
<td>0</td>
<td>2,029</td>
<td>-1,822</td>
<td>207</td>
<td>0</td>
<td>207</td>
<td>0</td>
</tr>
<tr>
<td>Insurance</td>
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<td>0</td>
<td>11,422</td>
<td>0</td>
<td>11,422</td>
<td>0</td>
<td>11,422</td>
<td>0</td>
<td>11,422</td>
<td>0</td>
<td>11,422</td>
<td>0</td>
</tr>
<tr>
<td>Legacy Reserve</td>
<td>9,150</td>
<td>1,049</td>
<td>10,199</td>
<td>-7,051</td>
<td>3,148</td>
<td>-3,148</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Redundancy Reserve</td>
<td>12</td>
<td>0</td>
<td>12</td>
<td>0</td>
<td>12</td>
<td>0</td>
<td>12</td>
<td>0</td>
<td>12</td>
<td>0</td>
<td>12</td>
<td>0</td>
</tr>
<tr>
<td>Devolved Budget</td>
<td>1,601</td>
<td>0</td>
<td>1,601</td>
<td>0</td>
<td>1,601</td>
<td>0</td>
<td>1,601</td>
<td>-1,601</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Earmarked Reserves</td>
<td>25,085</td>
<td>1,078</td>
<td>26,113</td>
<td>-7,051</td>
<td>19,062</td>
<td>-3,148</td>
<td>15,914</td>
<td>-4,233</td>
<td>12,491</td>
<td>0</td>
<td>12,491</td>
<td>0</td>
</tr>
<tr>
<td>Capital Reserves</td>
<td>7,484</td>
<td>0</td>
<td>7,484</td>
<td>0</td>
<td>7,484</td>
<td>0</td>
<td>7,484</td>
<td>0</td>
<td>7,484</td>
<td>-7,484</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>44,816</td>
<td>46,073</td>
<td>43,467</td>
<td>43,249</td>
<td>40,024</td>
<td>34,514</td>
<td>26,541</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note:**

- Based on the published MTRS (Public Accountability Board 29 January 2019) and the latest profile of legacy costs and Special Grant under existing Home Office rules.

- Discussions are taking place with the Home Office and the Police and Fire Minister regarding the affordability impact for South Yorkshire of the current Special Grant rules.

- Earmarked reserves and the capital reserve are assumed to be utilised to minimise the impact of Legacy costs. Without this course of action, general reserves would be only approximately 2% of net budget by 2024. To mitigate this, further savings would be required from the Chief Constable’s budget. The impact on capital investment and ability to provide for future risks, e.g. policing fracking protests, will need to be assessed.
# Forecast Earmarked Reserves as at 1 April 2019

<table>
<thead>
<tr>
<th>Home Office Category</th>
<th>Earmarked Reserve</th>
<th>Description/Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding for planned expenditure over the period of the current medium term financial planning (£13.829m)</td>
<td>PCC Innovation Reserve (£2.029m)</td>
<td>This reserve was set aside to fund innovation initiatives and investments in schemes that will improve efficiency and reduce operating costs. Currently the reserve is earmarked to fund the delayed Crime Review and potential Fracking costs.</td>
</tr>
<tr>
<td>Legacy Reserve (£10.199m)</td>
<td></td>
<td>This reserve has been set aside from underspends on legacy costs to fund future potential liabilities in relation to Hillsborough and CSE.</td>
</tr>
<tr>
<td>Devolved Reserve (£1.601m)</td>
<td></td>
<td>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.</td>
</tr>
<tr>
<td>Funding for specific expenditure beyond the current planning period</td>
<td>Capital Reserve (£7.484m)</td>
<td>This represents the remaining amount set aside to support the PCC's capital investment programme.</td>
</tr>
<tr>
<td>(£8.334m)</td>
<td>Revenue Grant Reserve</td>
<td>This reserve is for any grant that has not been used to fund related expenditure to be used when it is incurred in future years.</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>(£0.003m)</td>
<td>PCC Commissioning Reserve</td>
<td>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.</td>
</tr>
<tr>
<td>(£0.847m)</td>
<td>Insurance Reserve</td>
<td>This represents sums set aside to fund potential liabilities under the current insurance arrangements.</td>
</tr>
<tr>
<td>(£11.422m)</td>
<td>Redundancy Reserve</td>
<td>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.</td>
</tr>
<tr>
<td>(£11.434m)</td>
<td>As a general contingency/resource to meet other expenditure needs held in accordance with sound principles of good financial management</td>
<td></td>
</tr>
</tbody>
</table>
Police and Crime Commissioner for South Yorkshire

Treasury Management Strategy
Statement 2019/20
Minimum Revenue Provision Policy
Statement and Annual Investment Strategy
1. INTRODUCTION

1.1 Background

The South Yorkshire Police and Crime Commissioner (PCC) is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that the cash flows are planned adequately, with cash being available when it is required. Surplus monies is invested in low risk counterparties or instruments commensurate with the PCC's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the PCC's capital plans. These capital plans provide a guide to the borrowing need of the PCC, essentially the longer-term cash flow planning, to ensure that the PCC can meet capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn could be restructured to meet the PCC's risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget.

CIPFA defines treasury management as:

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

Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The PCC has not engaged in any commercial investments and has no non-treasury investments. The capital strategy will be submitted to the PCC for approval prior to 31 March 2019.

Since July 2015, the Humberside Commissioner’s Treasury Team, under a Service Level Agreement has managed the treasury management activities for South Yorkshire.

1.2 Reporting requirements

1.2.1 Capital Strategy

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

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

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.

1.2.2 Treasury Management reporting

The PCC is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) – This is the first, and most important report, it is forward looking and covers:
   - the capital plans, (including prudential indicators);
   - a minimum revenue provision (MRP) 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; and
   - an investment strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

**Scrutiny**

The above reports are scrutinised by the Joint Independent Audit Committee (JIAC) that is delegated to undertake this task before the reports are recommended to the PCC for approval.

1.3 Treasury Management Strategy for 2019/20

The strategy for 2019/20 covers two main areas:

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

**Treasury management issues**
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the PCC;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
• the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The training needs of treasury management officers and members are periodically reviewed. In 2019, training will be provided following recruitment of the new Deputy Chief Finance Officer and JIAC members.

1.5 Treasury management consultants

Both South Yorkshire and Humberside PCCs use Link Asset Services, as external treasury management advisors.

The PCC recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of the external service providers. All decisions will be undertaken with due regard to all available information, including, but not solely, our treasury advisers.

The PCC also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The PCC will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.
2 THE CAPITAL PRUDENTIAL INDICATORS 2019/20 – 2021/22

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

2.1 Capital expenditure

This prudential indicator is a summary of the PCC’s capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

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<tbody>
<tr>
<td>Total</td>
<td>7,129</td>
<td>13,400</td>
<td>19,311</td>
<td>21,491</td>
<td>11,989</td>
</tr>
</tbody>
</table>

Other long-term liabilities - The above financing need excludes other long-term liabilities, such as leasing arrangements that already include borrowing instruments. The only other long-term liability the PCC holds relates to the historical transferred debt managed by Rotherham Metropolitan Borough Council, which will be fully repaid in 2020/21.

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. No forecasts have been included with regards to capital receipts due to the ongoing review of the estate. Financing arrangements will be adjusted as/when disposals are completed and the disposal proceeds are received.

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</thead>
<tbody>
<tr>
<td>Capital receipts</td>
<td>136</td>
<td>439</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Capital grants</td>
<td>2,000</td>
<td>2,209</td>
<td>1,071</td>
<td>1,071</td>
<td>1,071</td>
</tr>
<tr>
<td>Capital reserves</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Revenue</td>
<td>77</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net financing need for the year</td>
<td>4,916</td>
<td>10,752</td>
<td>18,240</td>
<td>20,420</td>
<td>10,918</td>
</tr>
</tbody>
</table>
2.2 The Council’s borrowing need (the Capital Financing Requirement)

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.

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 is asked to approve the CFR projections below:

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Movement in CFR</td>
<td>3,430</td>
<td>8,325</td>
<td>17,145</td>
<td>19,217</td>
<td>9,578</td>
</tr>
</tbody>
</table>

Movement in CFR represented by

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</tr>
</thead>
<tbody>
<tr>
<td>Net financing need for the year (above)</td>
<td>4,916</td>
<td>10,752</td>
<td>18,240</td>
<td>20,420</td>
<td>10,918</td>
</tr>
<tr>
<td>Less MRP/VRP and other financing movements</td>
<td>-1,486</td>
<td>-2,427</td>
<td>-1,095</td>
<td>-1,203</td>
<td>-1,340</td>
</tr>
<tr>
<td>Movement in CFR</td>
<td>3,430</td>
<td>8,325</td>
<td>17,145</td>
<td>19,217</td>
<td>9,578</td>
</tr>
</tbody>
</table>
2.3 Minimum revenue provision (MRP) policy statement

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

MHCLG have 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.

A review of the options has been undertaken and it is recommended that the MRP Statement for 2019/20 is as follows:-

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 MHCLG regulations (option 1), which provides for an approximate 4% reduction in the borrowing need (CFR) each year.

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 3), whereby the annuity method has been adopted:

By way of explanation, under Regulation 27 and 28 of the 2003 Local Authorities Capital and Finance and Accounting (England) Regulations, local authorities, including Police and Crime Commissioners (PCCs), are required to charge MRP to their revenue account each financial year. It gives them flexibility in how they calculate MRP, providing the calculation is ‘prudent’ and has regard to the Statutory Guidance on MRP issued by the Secretary of State.

As indicated above, MRP is a charge to the revenue account in relation to capital expenditure financing from borrowing and can be referred to as a provision for ‘debt repayment’. The statutory guidance does not stipulate a minimum amount of provision to be made each year, it is a guide for authorities in determining the ‘prudent’ level of MRP. The guidance is not prescriptive and providing the debt is wholly repaid within the period in which capital investment provides benefit local authorities must make their own judgement about what is a prudent provision.

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 2018/19 MRP Policy Statement in February 2018. 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 is 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. The current value of the pre 1 April 2008 debt stands at £20.178m with charges for the next 3 years of: 19/20 - £0.809m, 20/21 - £0.775m and 21/22 - £0.743m.

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 date 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 second option is believed to be prudent and more reasonable as it recognises the time value of money, spreading the real costs more effectively for taxpayers. It is also more consistent with the Force’s maintenance programme which ensures assets are maintained to a level that increases the life and economic benefit of assets.

As 87% of the assets held by the PCC are land and buildings it is proposed to use 50 years life along with the average interest rate of borrowing held by the PCC – 4%. The current value of the post 1 April 2008 debt stands at £42.191m with charges for the next 3 years of: 19/20 - £0.287m, 20/21 - £0.428m and 20/21 - £0.596m.

The proposed change will generate savings to 2030/31, compared to the current method of £63m. The MRP will then increase in later years from 2031/32.
3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the PCC. The treasury management function ensures that the PCC's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the PCC's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The PCC's treasury portfolio position at 31 March 2018 and forward projections are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the CFR), highlighting any over or under borrowing:

<table>
<thead>
<tr>
<th></th>
<th>2017/18 Actual £'000</th>
<th>2018/19 Estimate £'000</th>
<th>2019/20 Estimate £'000</th>
<th>2020/21 Estimate £'000</th>
<th>2021/22 Estimate £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt at 1 April</td>
<td>42,970</td>
<td>42,370</td>
<td>50,622</td>
<td>66,062</td>
<td>84,982</td>
</tr>
<tr>
<td>Repayment of Debt</td>
<td>-600</td>
<td>-2,500</td>
<td>-2,800</td>
<td>-1,500</td>
<td>-1,500</td>
</tr>
<tr>
<td>Forecast new Debt</td>
<td>0</td>
<td>10,752</td>
<td>18,240</td>
<td>20,420</td>
<td>10,918</td>
</tr>
<tr>
<td>Other L/t liabilities (OLTL)</td>
<td>3,550</td>
<td>2,289</td>
<td>1,199</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Gross debt at 31 March</td>
<td>45,920</td>
<td>52,911</td>
<td>67,261</td>
<td>84,982</td>
<td>94,400</td>
</tr>
<tr>
<td>Under / (over) borrowing</td>
<td>8,388</td>
<td>9,722</td>
<td>12,517</td>
<td>14,013</td>
<td>14,173</td>
</tr>
</tbody>
</table>

Within the range of prudential indicators there are a number of key indicators to ensure that the PCC operates its activities within well-defined limits. One of these is that the PCC needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 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 or speculative purposes.

The Chief Finance and Commissioning Officer reports that the PCC has 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 budget report.
3.2 Treasury Indicators: limits to borrowing activity

The operational boundary: This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>50,622</td>
<td>66,062</td>
<td>84,982</td>
<td>94,400</td>
</tr>
<tr>
<td>Other long term liabilities</td>
<td>2,289</td>
<td>1,199</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>52,911</td>
<td>67,261</td>
<td>84,982</td>
<td>94,400</td>
</tr>
</tbody>
</table>

The authorised limit for external debt: This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the PCC. It reflects the level of external debt, which, while not desired could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all PCCs plans, or those of a specific PCC, although this power has not yet been exercised.

2. The PCC is asked to approve the following authorised limit:

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>52,622</td>
<td>66,062</td>
<td>84,982</td>
<td>96,400</td>
</tr>
<tr>
<td>Other long term liabilities</td>
<td>2,289</td>
<td>1,199</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>54,911</td>
<td>67,261</td>
<td>84,982</td>
<td>96,400</td>
</tr>
</tbody>
</table>

3.3 Prospects for Interest rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Rate Year</td>
<td>9.75%</td>
<td>9.75%</td>
<td>9.75%</td>
<td>9.75%</td>
<td>9.75%</td>
<td>9.75%</td>
<td>9.75%</td>
<td>9.75%</td>
<td>9.75%</td>
<td>9.75%</td>
<td>9.75%</td>
<td>9.75%</td>
<td>9.75%</td>
</tr>
<tr>
<td>3 Month LIBID</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
</tr>
<tr>
<td>6 Month LIBID</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
</tr>
<tr>
<td>12 Month LIBID</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
</tr>
<tr>
<td>3yr PWAR Rate</td>
<td>3.20%</td>
<td>3.20%</td>
<td>3.20%</td>
<td>3.20%</td>
<td>3.20%</td>
<td>3.20%</td>
<td>3.20%</td>
<td>3.20%</td>
<td>3.20%</td>
<td>3.20%</td>
<td>3.20%</td>
<td>3.20%</td>
<td>3.20%</td>
</tr>
<tr>
<td>6yr PWAR Rate</td>
<td>3.60%</td>
<td>3.60%</td>
<td>3.60%</td>
<td>3.60%</td>
<td>3.60%</td>
<td>3.60%</td>
<td>3.60%</td>
<td>3.60%</td>
<td>3.60%</td>
<td>3.60%</td>
<td>3.60%</td>
<td>3.60%</td>
<td>3.60%</td>
</tr>
<tr>
<td>10yr PWAR Rate</td>
<td>3.80%</td>
<td>3.80%</td>
<td>3.80%</td>
<td>3.80%</td>
<td>3.80%</td>
<td>3.80%</td>
<td>3.80%</td>
<td>3.80%</td>
<td>3.80%</td>
<td>3.80%</td>
<td>3.80%</td>
<td>3.80%</td>
<td>3.80%</td>
</tr>
</tbody>
</table>

2018 was a year which started with weak growth of only 0.1% in quarter 1. However, quarter 2 rebounded to 0.4% in quarter 2 followed by quarter 3 being exceptionally strong at +0.6%. Quarter 4 though, was depressed by the cumulative weight of Brexit uncertainty and came in at only +0.2%. Growth is likely to continue being weak until the Brexit fog clears.
The above forecasts are based on a major assumption that Parliament and the EU agree an orderly Brexit, either by 29 March or soon after. At their 7 February meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they have given a figure for this of around 2.5% in ten years' time but have declined to give a medium term forecast. However, with so much uncertainty around Brexit, the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they could also raise Bank Rate in the same scenario if there was a boost to inflation from increases in import prices, devaluation of sterling, and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could provide fiscal stimulus to boost growth.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth.

That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.25 – 2.50% in December 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We therefore saw US 10 year bond Treasury yields rise above 3.2% during October 2018 and also investors causing a sharp fall in equity prices as they sold out of holding riskier assets.

Since then, US 10 year bond yields have fallen back on fears that the Fed could be too aggressive in raising interest rates and was going to cause a recession. However, the Fed dropped any specific reference to expecting further rate increases at their January 30 meeting. Equity prices have been very volatile on alternating good and bad news during this period.

From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.
Investment and borrowing rates

Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.

Borrowing interest rates have been volatile so far in 2018-19 and while they were on a rising trend during the first half of the year, they have fallen significantly since then. 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 may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.4 Borrowing strategy

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 investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Chief Finance and Commissioning Officer 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 an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, 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.**

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.5 Policy on borrowing in advance of need

The PCC will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved 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.

3.6 Debt rescheduling

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).

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).

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.

All rescheduling will be reported to the PCC at the earliest opportunity.

3.7 Municipal Bond Agency

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The PCC may make use of this new source of borrowing as and when appropriate.
4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

The PCCs investment policy has regard to the following: -

- MHCLG’s Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The PCC’s investment priorities will be security first, portfolio liquidity second and then yield (return).

The above guidance from the MHCLG and CIPFA place 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 PCC 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 banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This PCC has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of ‘specified’ and ‘non-specified’ investments.

Changes in risk management policy from last year.
The above criteria are unchanged from last year.

4.2 Creditworthiness policy

This PCC applies the creditworthiness service provided by Link Asset Services. 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;
- 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 Outlooks in a weighted scoring system which is then combined with an overlay of CDS 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:

- Yellow  5 years *
- Dark pink  5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink  5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- 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

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 preponderance 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.

- if a downgrade results in the counterparty / investment scheme no longer meeting the PCC's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the PCC will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. 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 its decision making process.

<table>
<thead>
<tr>
<th>Y</th>
<th>P1</th>
<th>P12</th>
<th>P</th>
<th>B</th>
<th>O</th>
<th>R</th>
<th>G</th>
<th>N/C</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.25</td>
<td>1.5</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Up to 5yrs</td>
<td>Up to 5yrs</td>
<td>Up to 5yrs</td>
<td>Up to 2yrs</td>
<td>Up to 1yr</td>
<td>Up to 6mths</td>
<td>Up to 100days</td>
<td>No Colour</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Colour (and long term rating where applicable)</th>
<th>Time Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks *</td>
<td>yellow</td>
</tr>
<tr>
<td>Banks</td>
<td>purple</td>
</tr>
<tr>
<td>Banks</td>
<td>orange</td>
</tr>
<tr>
<td>Banks – part nationalised</td>
<td>blue</td>
</tr>
<tr>
<td>Banks</td>
<td>red</td>
</tr>
<tr>
<td>Banks</td>
<td>green</td>
</tr>
<tr>
<td>Banks</td>
<td>No colour</td>
</tr>
<tr>
<td>DMADF</td>
<td>UK sovereign rating</td>
</tr>
<tr>
<td>Local authorities</td>
<td>n/a</td>
</tr>
</tbody>
</table>

4.3  Country limits
The PCC has determined that only approved UK counterparties will be used.

4.4  Investment strategy

In-house funds: 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).

Investment returns expectations: On the assumption that the UK and EU agree a Brexit deal in spring 2019 or soon after, then Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.50%
- 2021/22 2.00%

The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.
Investment treasury indicator and limit: The PCC has determined that total principal funds will not be invested for longer than 365 days. For cash flow generated balances, the PCC will seek principally to utilise business reserve, instant access and notice accounts together with short-dated deposits where appropriate.

4.5 Investment risk benchmarking

The PCC will use an investment benchmark to assess the investment performance of its investment portfolio against the average 7 day LIBID rate.

4.6 End of year investment report

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

1. Prudential and treasury indicators
2. Interest rate forecasts
3. Economic background
4. Treasury management practice 1 – credit and counterparty risk management
5. Treasury management scheme of delegation
6. The treasury management role of the section 151 officer
5.1 THE CAPITAL PRUDENTIAL & TREASURY INDICATORS 2019/20 – 2021/22

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.

5.1.1 Capital expenditure

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>7,129</td>
<td>13,400</td>
<td>19,311</td>
<td>21,491</td>
<td>11,989</td>
</tr>
</tbody>
</table>

5.1.2 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:

**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.

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>2.30</td>
<td>2.98</td>
<td>1.91</td>
<td>2.14</td>
<td>2.00</td>
</tr>
</tbody>
</table>

The estimates of financing costs include current commitments and the proposals in this budget report.

5.1.3 Maturity structure of borrowing

**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:

<table>
<thead>
<tr>
<th>Maturity structure of fixed interest rate borrowing 2019/20</th>
<th>Lower</th>
<th>Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 12 months</td>
<td>0%</td>
<td>50%</td>
</tr>
<tr>
<td>12 months to 2 years</td>
<td>0%</td>
<td>75%</td>
</tr>
<tr>
<td>2 years to 5 years</td>
<td>0%</td>
<td>80%</td>
</tr>
<tr>
<td>5 years to 10 years</td>
<td>0%</td>
<td>80%</td>
</tr>
<tr>
<td>10 years and above</td>
<td>25%</td>
<td>100%</td>
</tr>
</tbody>
</table>

5.1.5 Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.
## 5.2 APPENDIX: Interest Rate Forecasts 2019 – 2022

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Year LIBOR</td>
<td>0.70%</td>
<td>0.70%</td>
<td>0.66%</td>
<td>0.66%</td>
<td>1.06%</td>
<td>1.06%</td>
<td>1.06%</td>
<td>1.06%</td>
<td>1.06%</td>
<td>1.06%</td>
<td>1.06%</td>
<td>1.06%</td>
<td>1.06%</td>
</tr>
<tr>
<td>6 Month LIBID</td>
<td>0.70%</td>
<td>0.70%</td>
<td>0.66%</td>
<td>0.66%</td>
<td>1.06%</td>
<td>1.06%</td>
<td>1.06%</td>
<td>1.06%</td>
<td>1.06%</td>
<td>1.06%</td>
<td>1.06%</td>
<td>1.06%</td>
<td>1.06%</td>
</tr>
<tr>
<td>12 Month LIBID</td>
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<td>0.63%</td>
<td>1.06%</td>
<td>1.06%</td>
<td>1.48%</td>
<td>1.48%</td>
<td>1.48%</td>
<td>1.48%</td>
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<td>1.06%</td>
<td>1.48%</td>
<td>1.48%</td>
<td>1.90%</td>
<td>1.90%</td>
<td>1.90%</td>
<td>1.90%</td>
<td>1.90%</td>
<td>1.90%</td>
<td>1.90%</td>
</tr>
<tr>
<td>7 Day PWLB Rate</td>
<td>2.12%</td>
<td>2.12%</td>
<td>2.40%</td>
<td>2.40%</td>
<td>2.69%</td>
<td>2.69%</td>
<td>2.69%</td>
<td>2.69%</td>
<td>2.69%</td>
<td>2.69%</td>
<td>2.69%</td>
<td>2.69%</td>
<td>2.69%</td>
</tr>
<tr>
<td>30 Day PWLB Rate</td>
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<td>2.75%</td>
<td>2.38%</td>
<td>2.38%</td>
<td>2.19%</td>
<td>2.19%</td>
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<td>2.19%</td>
<td>2.19%</td>
<td>2.19%</td>
</tr>
<tr>
<td>90 Day PWLB Rate</td>
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<td>3.63%</td>
<td>3.70%</td>
<td>3.70%</td>
<td>3.59%</td>
<td>3.59%</td>
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<td>3.59%</td>
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<td>3.59%</td>
<td>3.59%</td>
<td>3.59%</td>
<td>3.59%</td>
</tr>
</tbody>
</table>

**Bank Rate**

| 1 Year Asset Services | 3.75%  | 3.75%  | 3.75%  | 3.75%  | 3.75%  | 3.75%  | 3.75%  | 3.75%  | 3.75%  | 3.75%  | 3.75%  | 3.75%  | 3.75%  |
| Capital Economics    | 4.75%  | 4.75%  | 4.75%  | 4.75%  | 4.75%  | 4.75%  | 4.75%  | 4.75%  | 4.75%  | 4.75%  | 4.75%  | 4.75%  | 4.75%  |

**3 Year PWLB Rate**

| 1 Year Asset Services | 1.80%  | 1.80%  | 2.00%  | 2.00%  | 2.00%  | 2.00%  | 2.00%  | 2.00%  | 2.00%  | 2.00%  | 2.00%  | 2.00%  | 2.00%  |
| Capital Economics    | 1.80%  | 1.80%  | 2.00%  | 2.00%  | 2.00%  | 2.00%  | 2.00%  | 2.00%  | 2.00%  | 2.00%  | 2.00%  | 2.00%  | 2.00%  |

**5 Year PWLB Rate**

| 1 Year Asset Services | 2.30%  | 2.30%  | 2.40%  | 2.40%  | 2.40%  | 2.40%  | 2.40%  | 2.40%  | 2.40%  | 2.40%  | 2.40%  | 2.40%  | 2.40%  |
| Capital Economics    | 2.20%  | 2.20%  | 2.40%  | 2.40%  | 2.40%  | 2.40%  | 2.40%  | 2.40%  | 2.40%  | 2.40%  | 2.40%  | 2.40%  | 2.40%  |

**5 Year PWLB Rate**

| 1 Year Asset Services | 2.70%  | 2.70%  | 2.80%  | 2.80%  | 2.80%  | 2.80%  | 2.80%  | 2.80%  | 2.80%  | 2.80%  | 2.80%  | 2.80%  | 2.80%  |
| Capital Economics    | 2.70%  | 2.70%  | 2.80%  | 2.80%  | 2.80%  | 2.80%  | 2.80%  | 2.80%  | 2.80%  | 2.80%  | 2.80%  | 2.80%  | 2.80%  |

**7 Year PWLB Rate**

| 1 Year Asset Services | 3.20%  | 3.20%  | 3.20%  | 3.20%  | 3.20%  | 3.20%  | 3.20%  | 3.20%  | 3.20%  | 3.20%  | 3.20%  | 3.20%  | 3.20%  |
| Capital Economics    | 3.20%  | 3.20%  | 3.20%  | 3.20%  | 3.20%  | 3.20%  | 3.20%  | 3.20%  | 3.20%  | 3.20%  | 3.20%  | 3.20%  | 3.20%  |

**10 Year PWLB Rate**

| 1 Year Asset Services | 3.90%  | 3.90%  | 3.90%  | 3.90%  | 3.90%  | 3.90%  | 3.90%  | 3.90%  | 3.90%  | 3.90%  | 3.90%  | 3.90%  | 3.90%  |
| Capital Economics    | 3.90%  | 3.90%  | 3.90%  | 3.90%  | 3.90%  | 3.90%  | 3.90%  | 3.90%  | 3.90%  | 3.90%  | 3.90%  | 3.90%  | 3.90%  |

**15 Year PWLB Rate**

| 1 Year Asset Services | 4.30%  | 4.30%  | 4.30%  | 4.30%  | 4.30%  | 4.30%  | 4.30%  | 4.30%  | 4.30%  | 4.30%  | 4.30%  | 4.30%  | 4.30%  |
| Capital Economics    | 4.30%  | 4.30%  | 4.30%  | 4.30%  | 4.30%  | 4.30%  | 4.30%  | 4.30%  | 4.30%  | 4.30%  | 4.30%  | 4.30%  | 4.30%  |

**30 Year PWLB Rate**

| 1 Year Asset Services | 4.90%  | 4.90%  | 4.90%  | 4.90%  | 4.90%  | 4.90%  | 4.90%  | 4.90%  | 4.90%  | 4.90%  | 4.90%  | 4.90%  | 4.90%  |
| Capital Economics    | 4.90%  | 4.90%  | 4.90%  | 4.90%  | 4.90%  | 4.90%  | 4.90%  | 4.90%  | 4.90%  | 4.90%  | 4.90%  | 4.90%  | 4.90%  |
5.3 ECONOMIC BACKGROUND

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

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to an acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is now probably unlikely to make a start on raising rates in 2019.

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

The key issue now is that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), also reducing central banks’ holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy and of unemployment falling to such low levels, that the re-emergence of inflation is viewed as a significant risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we did, indeed, see a sharp fall in equity values in the last quarter of 2018 and into early 2019. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak. The potential for central banks to get this timing and strength of action wrong are now key risks. It is particularly notable that, at its 30 January 2019 meeting, the Fed dropped its previous words around expecting further increases in interest rates; it merely said it would be “patient”.

The world economy also needs to adjust to a sharp change in liquidity creation over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt, (currently about $50bn per month). In addition, the European Central Bank ended its QE purchases in December 2018.

UK. 2018 was a year which started with weak growth of only 0.1% in quarter 1. However, quarter 2 rebounded to 0.4% in quarter 2 followed by quarter 3 being exceptionally strong at +0.6%. Quarter 4 though, was depressed by the cumulative weight of Brexit
uncertainty and came in at only +0.2%. Growth is likely to continue being weak until the Brexit fog clears.

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

Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.1% in December 2018. In the February Bank of England quarterly inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead given a scenario of minimal increases in Bank Rate.

The labour market figures in November were particularly strong with an emphatic increase in total employment of 141,000 over the previous three months, unemployment at 4.0%, a 43 year low on the Independent Labour Organisation measure, and job vacancies hitting an all-time high, indicating that employers are having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation continued at its high point of 3.3%, (3 month average regular pay, excluding bonuses). This means that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 1.2%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the political arena, the Brexit deal put forward by the Conservative minority government was defeated on 15 January. Prime Minister May is currently, (mid-February), seeking some form of modification or clarification from the EU of the Irish border backstop issue. (Officers are likely to need to verbally update members as events are constantly evolving.) However, our central position is that the Government will endure, despite various setbacks, along the route to reaching an orderly Brexit though the risks are increasing that it may not be possible to get full agreement by the UK and EU before 29 March 2019, in which case this withdrawal date is likely to be pushed back to a new date. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump’s massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2% (annualised rate) in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and an unemployment rate of 4.0%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2% in December. However, CPI inflation overall fell to 1.9% in December and looks to be on a falling trend to continue below the Fed’s target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, which was the fifth
increase in 2018 and the ninth in this cycle. However, they dropped any specific reference to expecting further increases at their January 30 meeting. The last increase in December compounded investor fears that the Fed could overdo the speed and level of increases in rates in 2019 and so cause a US recession as a result. There is also much evidence in previous monetary policy cycles of the Fed’s series of increases doing exactly that. Consequently, we have seen stock markets around the world falling under the weight of fears around the Fed’s actions, the trade war between the US and China and an expectation that world growth will slow. Since the more reassuring words of the Fed in January, equity values have recovered somewhat.

The tariff war between the US and China generated a lot of heat during 2018; it could significantly damage world growth if an agreement is not reached during the current three month truce declared by President Trump to hold off from further tariff increases.

**Eurozone.** Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of its manufacturing exports e.g. cars. Current forward indicators for economic growth and inflation have now been on a downward trend for a significant period which will make it difficult for the ECB to make any start on increasing rates until 2020 at the earliest. Indeed, the issue now is rather whether the ECB will have to resort to new measures to boost liquidity in the economy in order to support growth. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank ended all further purchases in December 2018. In its January meeting, it made a point of underlining that it will be fully reinvesting all maturing debt for an extended period of time past the date at which it starts raising the key ECB interest rates.

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

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

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

**INTEREST RATE FORECASTS**

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. On this basis, while GDP growth is likely to be subdued in 2019 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in subsequent years which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report
assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

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

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

The balance of risks to the UK

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

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

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

- Brexit – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March 2018 of a government which has made a lot of anti-austerity noise. The EU rejected the original proposed Italian budget and demanded cuts in government spending. The Italian government nominally complied with this rebuttal – but only by delaying into a later year the planned increases in expenditure. This particular can has therefore only been kicked down the road. The rating agencies have downgraded Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold Italian debt. Unsurprisingly, investors are becoming increasingly concerned by the actions of the Italian government and consequently, Italian bond yields have
risen sharply – at a time when the government faces having to refinance large amounts of debt maturing in 2019.

- **Weak capitalisation of some European banks.** Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.

- **German minority government.** In the German general election of September 2017, Angela Merkel’s CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD had a major internal debate as to whether it could continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party’s convention in December 2018. However, this makes little practical difference as she has continued as Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.

- **Other minority EU governments.** Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile.

- **Italy, Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU. Elections to the EU parliament are due in May/June 2019.

- The increases in interest rates in the US during 2018, combined with a potential trade war between the USA and China, sparked major volatility in equity markets during the final quarter of 2018 and into 2019. Some emerging market countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to investor flight from equities to safe havens, typically US treasuries, German bunds and UK gilts.

- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.

- **Geopolitical risks,** especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

- **Brexit** – if both sides were to agree a compromise that removed all threats of economic and political disruption.
• The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

• The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

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

Brexit timetable and process
• March 2017: UK government notified the European Council of its intention to leave under the Treaty on European Union Article 50 on 29 March 2019.
• 25.11.18 EU27 leaders endorsed the withdrawal agreement
• Dec 2018 vote in the UK Parliament on the agreement was postponed
• 21.12.18 – 8.1.19 UK parliamentary recess
• 15.1.19 Brexit deal defeated in the Commons vote by a large margin
• 28.1.19 Further votes in the Commons
• 14.2.19 Further votes in the Commons
• 21.3.19 EU summit at which a Brexit option could be considered
• By 29.3.19 another vote (?) in UK parliament
• By 29.3.19 if the UK Parliament approves a deal, then ratification by the EU Parliament requires a simple majority

• By 29.3.19 if the UK and EU parliaments agree the deal, the EU Council needs to approve the deal; 20 countries representing 65% of the EU population must agree
• 29.3.19 Either the UK leaves the EU, or asks the EU for agreement to an extension of the Article 50 period if the UK Parliament has been unable to agree on a Brexit deal.
• 29.3.19: if an agreement is reached with the EU on the terms of Brexit, then this will be followed by a proposed transition period ending around December 2020.

• UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy may leave the single market and tariff free trade at different times during the transition period.
• The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
• The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.

• If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU.

• On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
5.4 TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

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.

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.

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

<table>
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<tr>
<th></th>
<th>Minimum credit criteria / colour band</th>
<th>**Max % of total investments/ £ limit per institution</th>
<th>Max. maturity period</th>
</tr>
</thead>
<tbody>
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<td>DMADF – UK Government</td>
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<td>6 months</td>
</tr>
<tr>
<td>UK Government gilts</td>
<td>UK sovereign rating</td>
<td>100%/No Limit</td>
<td>12 months</td>
</tr>
<tr>
<td>UK Government Treasury bills</td>
<td>UK sovereign rating</td>
<td>100%/No limit</td>
<td>12 months</td>
</tr>
<tr>
<td>Ultra-Short Dated Bond Funds with a credit score of 1.25</td>
<td>AAA</td>
<td>100%</td>
<td>Liquid</td>
</tr>
<tr>
<td>Ultra-Short Dated Bond Funds with a credit score of 1.5</td>
<td>AAA</td>
<td>100%</td>
<td>Liquid</td>
</tr>
<tr>
<td>Local authorities</td>
<td>N/A</td>
<td>100%</td>
<td>12 months</td>
</tr>
<tr>
<td>Term deposits with banks and building societies - £30m with any one institution and £30m with any one banking group.</td>
<td>Blue, Orange, Red, Green, No Colour</td>
<td>£30m</td>
<td>12 months 12 months 6 months 100 days Not for use</td>
</tr>
<tr>
<td>Term deposits with other counterparties - £15m with any one institution and £25m with any one banking group.</td>
<td>Blue, Orange, Red, Green, No Colour</td>
<td>£15m</td>
<td>12 months 12 months 6 months 100 days Not for use</td>
</tr>
</tbody>
</table>

Accounting treatment of investments: The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this PCC. To
ensure that the PCC is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.
5.5 TREASURY MANAGEMENT SCHEME OF DELEGATION

The Police and Crime Commissioner

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy;
- approval of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

The Joint Independent Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the PCC.
5.6 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- 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;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, and treasury management, with a long term timeframe
- ensuring that the capital strategy is sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all investments and is in accordance with the risk appetite of the authority
CAPITAL STRATEGY 2019 TO 2024
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 2023/24.

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 Our 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 strong feature of the Capital Strategy, with the three major components of the capital programme – estates, IT and fleet - developed either with South Yorkshire Fire and Rescue Services 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 2023/24, with the capital financing requirement and Minimum Revenue Provision policy over the same planning horizon.

2. Background

2.1 CIPFA’s revised 2017 Prudential and Treasury Management Codes requires the PCC to prepare a capital strategy for 2019/20, 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 2023/24 and beyond.

2.4 The proposed capital strategy is sustainable, affordable and prudent in the long term. A key priority of the PCC’s Police and Crime Plan 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 treasury management activity. The output of capital expenditure plans is reflected in the prudential
indicators within the Treasury Management Strategy, which are designed to provide an overview and confirm capital expenditure plans.

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 Estates Strategy

The Estates Plan 2018 – 2025 was prepared by the Joint Police and Fire Service Head of Estates and approved at the PCC’s Estates Board in Autumn 2018. It incorporates the development of a Corporate Landlord approach and an Action Plan and has four key objectives:

a) Enabling operational policing i.e. fit for purpose estate

b) Supporting efficiency and effectiveness throughout the Force – including rationalisation or more flexible use of the estate.

c) Maximising partnership and collaboration opportunities – including collaboration with South Yorkshire Fire & Rescue and One Public Estate Programmes in the Sheffield City Region.

d) Promoting modern methods of working, including agile – such as the configuration of the spaces we occupy.

3.4 IT Strategy

South Yorkshire Police has a joint IT Strategy and IT function shared with the Humberside Police Force. The joint Information Services Strategy 2018 was approved via the Joint Collaboration Board. A key theme is to ensure all programmes are designed to enhance the public’s experience on dealing with the Police or helping to improve the efficiency and productivity of the two Forces.

The following activities are embedded in the Strategy to 2022:

- The expansion and integration of Connect, Smart Contact and ERP
- The deployment of a Digital Evidence Management system
• The development of a digital agenda to include digital customer portals, e-forms, workflow and the expansion of SharePoint to create 'paper light' environments
• Review of the devices used by staff and officers with a focus on usability and anywhere/anytime access to systems
• Improvements to the Unified Communications (UC) platform to provide true number mobility irrespective of device
• Expansion of agile working to facilitate officers being able to access all systems out in the field and staff to work in any location with the aim of facilitating a rationalisation of the estate.
• The formation of a central team of data specialists to mine the multitude of data sources held within both Forces and combine with relevant external data
• Ensuring all technologies work with and do not duplicate the work of the national programmes.

3.5 Fleet Strategy

The Joint Vehicle Fleet Management Strategy September 2018, prepared by the Head of Joint Vehicle Fleet Management on behalf of South Yorkshire Police Force and the South Yorkshire Fire and Rescue Service. Managed through a shared structure it retains local delivery, protecting existing expertise, specialisms and experience.

The combined management and support structure to two substantial vehicle fleets and workshops will allow a collaborative approach to the use of management information to inform service design and optimise the efficiency and effectiveness of operation. The goal is to develop a service that provides an efficient, effective, streamlined and valued service for both organisations, which will support each in achieving their strategic priorities, whilst maintaining and improving performance.

4. Governance

4.1 Governance of the capital programme follows Financial Regulations and Financial Instructions, to ensure available resources are allocated to deliver value for money, risks are managed and ensure that capital planning is undertaken alongside service strategic and financial planning and reflected in the MTRS.

4.2 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.

4.3 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.

4.4 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.

4.5 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.

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

5. Capital Expenditure 2019/20 to 2023/24

5.1 The table below summarises 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. No forecasts have been included with regards to capital receipts due to the ongoing review of the estate within the Estates Plan 2018 to 2025. Financing arrangements will be adjusted as/when disposals are completed and the disposal proceeds are received.

<table>
<thead>
<tr>
<th>Capital Budget</th>
<th>Forecast 2018/19 £000</th>
<th>Forecast 2019/20 £000</th>
<th>Forecast 2020/21 £000</th>
<th>Forecast 2021/22 £000</th>
<th>Forecast 2022/23 £000</th>
<th>Forecast 2023/24 £000</th>
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<td>1,071</td>
<td>1,071</td>
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<td>0</td>
<td>0</td>
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<td>20,420</td>
<td>10,918</td>
<td>4,835</td>
<td>5,272</td>
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<td>Overall Total</td>
<td>13,400</td>
<td>19,311</td>
<td>21,491</td>
<td>11,989</td>
<td>5,906</td>
<td>6,343</td>
</tr>
</tbody>
</table>

Of Which: External Borrowing 10,500 18,000 20,500 11,000 5,000 5,500

5.2 Other long-term liabilities - The above financing need excludes other long-term liabilities, such as leasing arrangements that already include borrowing instruments. The only other long-term liability the PCC holds relates to the historical transferred debt managed by Rotherham Metropolitan Borough Council, which will be fully repaid in 2020/21.

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 broadly reduces the borrowing need.

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.

6.4 The CFR projections are set out below:

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<tr>
<td>Capital Investment</td>
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<tr>
<td>Property, Plant, Equipment</td>
<td>13,400</td>
<td>19,311</td>
<td>21,491</td>
<td>11,989</td>
<td>5,906</td>
<td>6,343</td>
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<td>Source of Finance</td>
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<td>Capital Receipts</td>
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<td>0</td>
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<td>0</td>
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<td>Govt Grants &amp; Contributions</td>
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<td>-1,071</td>
<td>-1,071</td>
<td>-1,071</td>
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<tr>
<td>Sums set aside from revenue</td>
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<td>-1,340</td>
<td>-1,417</td>
<td>-1,455</td>
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<td>Minimum Revenue Provision</td>
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</table>

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 it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

7.2 MHCLG have 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 A review of the options has been undertaken and it is recommended that the MRP Statement for 2019/20 is as follows:

7.4 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 MHCLG regulations (option 1), which provides for an approximate 4% reduction in the borrowing need (CFR) each year.

7.5 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 3), whereby the annuity method has been adopted:
8. Background Information Regarding Minimum Revenue Provision

8.1 By way of explanation, under Regulation 27 and 28 of the 2003 Local Authorities Capital and Finance and Accounting (England) Regulations, local authorities, including Police and Crime Commissioners, are required to charge MRP to their revenue account each financial year. It gives them flexibility in how they calculate MRP, providing the calculation is ‘prudent’ and has regard to the Statutory Guidance on MRP issued by the Secretary of State.

8.2 As indicated above, MRP is a charge to the revenue account in relation to capital expenditure financing from borrowing and can be referred to as a provision for ‘debt repayment’. The statutory guidance does not stipulate a minimum amount of provision to be made each year, it is a guide for authorities in determining the ‘prudent’ level of MRP. The guidance is not prescriptive and providing the debt is wholly repaid within the period in which capital investment provides benefit local authorities must make their own judgement about what is a prudent provision.

8.3 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

8.4 The PCC approved the 2018/19 MRP Policy Statement in February 2018. 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.

8.5 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.

8.6 No change is 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. The current value of the pre-1 April 2008 debt stands at £20.178m with charges for the next 3 years of: 2019/20 - £0.809m, 2020/21 - £0.775m and 2021/22 - £0.743m.

8.7 For post-1 April 2008 capital expenditure, the current method, Option 3, has two alternatives 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 (i.e. self-financed). The first is the equal instalment method. This has been applied to date 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 second option is believed to be prudent and more reasonable as it recognises the time value of money, spreading the real costs more effectively for taxpayers. It is also more consistent with the Force’s maintenance programme which ensures assets are maintained to a level that increases the life and economic benefit of assets.

8.8 As 87% of the assets held by the PCC are land and buildings it is proposed to use 50 years life along with the average interest rate of borrowing held by the PCC – 4%. The current value of the post 1 April 2008 debt stands at £42.191m with charges for the next 3 years of: 19/20 - £0.287m, 20/21 - £0.428m and 20/21 - £0.596m.

8.9 The proposed change will generate savings to 2030/31, compared to the current method, of £63m. The MRP will then increase in later years from 2031/32.

**Summary of Minimum Revenue Provision 2019/20 to 2023/24**

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<td>RMBC Principal</td>
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<td>1,090,083</td>
<td>1,199,163</td>
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<td>RMBC Interest</td>
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<td>98,169</td>
<td>33,746</td>
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<tr>
<td>Police Principal (MRP)</td>
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<td>1,094,552</td>
<td>1,202,987</td>
<td>1,339,575</td>
<td>1,417,312</td>
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<td>Police Interest</td>
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<td>5,153,640</td>
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<td>4,630,642</td>
<td>4,057,123</td>
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<td><strong>Income</strong></td>
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<tr>
<td>Loan Charge Grant</td>
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<td>-150,000</td>
<td>-150,000</td>
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<td><strong>Net Charge to Budget / MTRS</strong></td>
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<td>4,155,292</td>
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