PUBLIC ACCOUNTABILITY BOARD

Date: 25 February 2020

Report of the Chief Finance & Commissioning Officer

Budget and Council Tax Precept for 2020/21

1. PURPOSE OF THE REPORT

The Police and Crime Commissioner (PCC) is required to approve the 2020/21 budget and issue the Council Tax precept by 1 March 2020.

2. RECOMMENDATION

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

a) A budget requirement for 2020/21 of £278.4m, as set out in Section 9 of the report;
b) A Council Tax precept increase of 2%, equivalent to a £3.88 increase to £198.04 for the year on a Band D property for 2020/21. This equates to an annual increase of £2.59 for a Band A property and £3.02 for a Band B property, as set out in paragraph 8.1 of the report;
c) The Reserves Strategy as set out in Appendix 4;
d) A Capital Strategy and Programme for 2020/21 of £27.811m 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) To note the Chief Finance and Commissioning Officer's statement on the robustness of estimates as set out in Section 12 of the report.

3. SUMMARY OF DECISION MAKING AND CONSULTATION

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

3.2 The 2020/21 budget priorities and precept increase proposed in this report have been previously debated and agreed at the following:

Meeting of South Yorkshire Council Leaders	27 January 2020
Public Accountability Board	28 January 2020
Police & Crime Panel	6 February 2020

3.3 The Police & Crime Panel (PCP) agreed to support the proposed precept for 2020/21 at its meeting on 6th February 2020. The full response from the PCP is attached at Appendix 1.

3.4 The outcomes of consultation with the public regarding the policing precept are attached at Appendix 2. Over 2,600 residents have engaged and expressed their views, with the majority indicating they would be prepared to pay an increased precept, in return for assurance regarding value for money and greater visibility.

4. BACKGROUND

4.1 During the period 2010/11 to 2018/19, South Yorkshire Police (SYP) received a 22.3% reduction in Government grant (a real terms 36.4% reduction in resources). At the same time, SYP faced growth in demand, inflation and the need to fund a number of ongoing 'Legacy' issues relating to the Hillsborough disaster and child sexual exploitation (CSE). This meant that annual budgets had to be balanced through a combination of savings (with over 500 police officer posts lost), some use of reserves and maximising increases in the Council Tax precept for policing.

4.2 In 2019/20, the Home Office froze government grant for policing and gave PCCs the 'flexibility' to increase the precept by a value up to the equivalent of £24 on a Band D property. For South Yorkshire, this equated to a 14% increase in the precept. The budget proposal for 2019/20 was to utilise the precept to increase police officer numbers initially by 55, which was then updated in July 2019 to achieve an increase in officer numbers of 220 by 2022/23.

5. SOUTH YORKSHIRE POLICE PERFORMANCE

5.1 The force has made considerable progress on its journey to outstanding. In 2016 SYP was ranked 43rd out of 43 forces. In the latest rankings it is now ranked joint fourth, and is the highest ranking force in the Yorkshire and the Humber region.

5.2 HMICFRS inspections look at the force's efforts at 'Effectiveness', 'Efficiency' and Legitimacy' and grades them accordingly. Over the last year SYP has been rated as 'Good' in 11 areas and outstanding in one area. Just three years ago they were ranked as 'Requires Improvement' in nine areas and 'Inadequate' in the area of Demand Management.

5.3 This improvement over the three year period is unprecedented in policing history. However, the Force is not taking this for granted and is striving to become 'outstanding' in areas including Neighbourhood Policing, Problem Solving, Demand Management and Tackling Serious and Organised Crime.

6. 2020/21 NATIONAL FUNDING SETTLEMENT

6.1 The Home Office traditionally issues the annual funding settlement for the financial year ahead by mid-December. However, due to the general election, the Home Office only released the 2020/21 funding settlement at noon on 22nd January.

6.2 The approach to securing the government's full 20,000 'Uplift' in police officers target will be addressed in the 2020 Spending Review and incorporated into the 2021/22 budget planning process. For 2020/21, additional grant funding of £700m was included to help PCCs and forces achieve the target of the first 6,000 increase in police officer numbers by 31st March 2021. In addition, PCCs were given the flexibility to increase the policing precept by up to £10 for a Band D property in 2020/21.

6.3 For South Yorkshire, additional 'Uplift' grant of £16.8m has been made available in 2020/21 to support an increase of police officer numbers of 151 by March 2021. Of this, the Home Office have built 75% (£12.6m) into the core policing grant and retained 25% (£4.2m) as 'ringfenced grant' with conditions, assumed to be payable in instalments during the year only if the 151 additional officers are in post by 31.3.21 (full detail is awaited from the Home Office).

6.4 For our 2020/21 financial planning, only the core grant (75%) is assumed in the 2020/21 budget, with the full value including the ringfenced grant element assumed in 2021/22 onwards.

6.5 The late notification of the funding settlement by the Home Office shortened significantly the opportunity for specific public consultation, which was open until 31st January.

6.6 Additional, non-recurrent funding will also be made available by the Home Office to tackle serious violence and knife crime, through 'Surge' policing enforcement and continued support to the 18 Violence Reduction Units, including South Yorkshire.

7. POLICE OFFICER NUMBERS

7.1 For South Yorkshire, the Home Office's target number for new 'National Uplift' officers in post by March 2021 is 151. This is in addition to the additional 73 officers already planned for 2020/21 following the significant increase in precept levied in 2019/20 to achieve 220 more officers.

7.2 The table below shows how, in total, 274 new police officer posts will have been created and filled between April 2019 and March 2021. This is in addition to recruiting to fill vacancies that arise from the 'business as usual' existing police officer workforce.

Recruitment Plan					
Recruitment Type	31 March 2020	31 March 2021	31 March 2022	31 March 2023	Total
National Uplift Profile	2,000	4,000	8,000	6,000	20,000
	10%	20%	40%	30%	100%
Business As Usual (i.e. to replace leavers)	154	218	170	237	779
Chief Constable Uplift	50	73	79	18	220
National Uplift	30	121	195	141	487
Total in year	**234**	**412**	**444**	**396**	**1,486**
Strength - in post	**2,401**	**2,608**	**2,859**	**3,056**	

7.3 South Yorkshire anticipates its share of the full 20,000 'Uplift' officers will be 487 by 2023, although the precise number and the Home Office's approach to grant funding the further 14,000 after 2020/21 won't be confirmed until the Spending Review is published.

7.4 The estimated costs of achieving the full Uplift target for South Yorkshire of 487 officers by March 2023 have been built into the Medium Term Resource Strategy (MTRS), but the government grant funding is reflected at 2020/21 levels (i.e. for 151), which highlights the cost pressure that will need to be addressed unless the Home Office grant fund the full Uplift numbers.

8. 2020/21 PRECEPT PROPOSAL

8.1 The PCC's proposal is to levy an annual increase in the precept equivalent to £3.88 per annum on a Band D property i.e. a 2% increase. In South Yorkshire, 75% of properties are in Bands A or B (58% and 17% respectively). The annual increase for a Band A property would be £2.59, and £3.02 for Band B.

		Precept for 2020/21			**2% Increase 2020/21**		**Properties**	**%**
	Annual	**Monthly**	**Weekly**	**Annual**	**Monthly**	**Weekly**		
Band A	132.03	11.00	2.54	2.59	0.22	0.05	354,018	57.5
Band B	154.03	12.84	2.96	3.02	0.25	0.06	105,635	17.1
Band C	176.04	14.67	3.39	3.45	0.29	0.07	75,279	12.2
Band D	**198.04**	**16.50**	**3.81**	**3.88**	**0.32**	**0.07**	**43,846**	7.1
Band E	242.05	20.17	4.65	4.75	0.40	0.09	22,215	3.6
Band F	286.06	23.84	5.50	5.61	0.47	0.11	9,617	1.6
Band G	330.07	27.51	6.35	6.47	0.54	0.12	5,094	0.8
Band H	396.08	33.01	7.62	7.76	0.65	0.15	438	0.1
							616,142	**100.0**

9. 2020/21 BUDGET SUMMARY

9.1 The Chief Constable has presented his current assessment of the impact of demand on SYP and the recommended operating model to support the key priorities of the Police and Crime Plan:

- Tackling crime and anti-social behaviour
- Protecting vulnerable people
- Treating people fairly

9.2 SYP's approach will complement the work of partner organisations commissioned using the PCC's partnerships and commissioning budget of £5.18m (£3.34m net of £1.84m MoJ grant) and summarised in the Commissioning Plan 2020/21, attached at Appendix 3.

9.3 The 2020/21 budget of £278.479m includes investment to support the further increase in police officer posts of 194 (73+121) in the year identified in the table above, including equipment and other non pay costs, as well as supporting staff. Also included was investment into Atlas Court (£1.1m full year), the Crime Review (£1.1m) and £1.6m into the estate to support the increased workforce through Uplift. Inflationary costs of £7.0m (predominantly the pay ward assumed at 2.5%) have also been provided for.

9.4 Savings of £4.3m are reflected and the overtime budget has been reduced. This reflects the force gaining a better understanding of demand and developing its workforce strategy. However, should the force receive one-off 'Surge' funding again in 2020/21, this may cause a planned increase in overtime to resource the additional serious violence enforcement activity.

9.5 Legacy issues are forecast to cost a further £129m to 2023/24, requiring £19m of our resources to fund the expected shortfall in Special Grant receivable under current Home Office rules. We remain in active dialogue with the Home Office to increase Special Grant to minimise the level of funding from the current policing budget to pay for the legacy of these historic events (civil claims arising from the Hillsborough disaster and the cost of the National Crime Agency's ongoing investigation into historic child sexual exploitation in Rotherham).

9.6 The MTRS below assumes a 2% precept increase each year to 2024/25. The MTRS also reflects the full increase in police officer numbers to 3,056 by March 2023 i.e. the 220 from existing Precept plus the 487 further Uplift officers. However, pending certainty through the Spending Review, the level of Uplift grant is maintained at 2020/21 levels i.e only funding the first 151 of the full Uplift increase in officers for South Yorks.

9.7 It is recognised that this is a prudent assumption regarding future Uplift grant income. A national data collection exercise has just commenced for forces to feed their expected Uplift grant requirements, using standardised assumptions for officers, support staff and equipment, into the Home Office's Spending Review submission to the Treasury for 2021/22 and onwards.

9.8 The annual inflationary pay award for police officers and staff applies from September to August. The initial planning assumption was that this would be 2% from September 2020 and the life of the MTRS. On 30th January 2020 the Association of Police and Crime Commissioners issued a circular indicating that the National Police Chiefs Council was proposing a 2.5% pay award for 2020/21 and a multi-year pay deal thereafter. 2.5% has now been reflected in the proposed 2020/21 budget and MTRS, requiring c.£750k in 2020/21 and a further £1.1m per annum thereafter.

9.9 In addition, we have received information that there are likely to be increased charges for the national air service (NPAS), which includes police helicopters, of £178k for South Yorkshire. Also, the Home Office has now indicated that an increase in charges to forces in 2020/21 for national IT projects is imminent, estimated at £780k. Both of these increased charges are reflected in the 2020/21 budget.

9.10 This produces a 2020/21 budget proposal and MTRS of:

2020/21 Budget & Medium Term Financial Plan 6 Feb					
	20/21	**21/22**	**22/23**	**23/24**	**24/25**
	£m	£m	£m	£m	£m
SY Police Force	263.6	276.1	289.0	297.2	306.7
SY PCC	2.2	2.3	2.4	2.5	2.6
Commissioning & P'ships	3.3	3.3	3.3	3.3	3.3
Capital Financing	3.2	3.0	4.2	4.9	5.3
Legacy Costs (net)	6.1	6.1	4.8	2.4	0.0
Total Expenditure	**278.4**	**290.8**	**303.7**	**310.3**	**317.9**
Funding	**(278.7)**	**(285.5)**	**(288.1)**	**(290.8)**	**(293.6)**
Net (Surplus) or Deficit	**(0.3)**	**5.3**	**15.6**	**19.5**	**24.3**

9.11 The impact of these assumptions is that the 2020/21 budget is in balance, but the MTRS requires the use of reserves to balance the budget from 2021/22 onwards. This is not a sustainable approach, as the prudent minimum reserve balance could only be sustained until 2023/24.

9.12 Therefore, balancing the medium term financial position to ensure recurrent financial balance will require some, or all, of the following:

a) Achieving clarity through the Spending Review regarding the level of grant funding to increase 'Uplift' police officer numbers beyond 151 towards achieving the est. 487 of the national 20,000 target, as the cost of the 487 officers (plus supporting staff, equipment and estates costs), is currently factored into the MTRS in full and may not be affordable,
b) the Force's future integrated planning to balance demand and growth pressures and the need for efficiency savings,
c) an improved deal on Legacy cost funding from the Home Office,
d) use of Precept flexibility i.e. increases greater than the assumed 2% per annum.

9.13 Below is an exemplification of the impact of some of the options above, including alternative precept increases and receiving 50% of potential additional Uplift Grant, based on the sector's current planning assumptions of the estimated costs for future years, if awarded through the Spending Review.

Impact of Options:					
	20/21	**21/22**	**22/23**	**23/24**	**24/25**
	£m	£m	£m	£m	£m
Precept - 3% increase p.a.	(0.7)	(1.5)	(2.3)	(3.1)	(4.1)
Precept - 4% increase p.a.	(1.4)	(2.9)	(4.6)	(6.4)	(8.4)
Precept - 5% increase p.a.	(2.1)	(4.4)	(6.9)	(9.7)	(12.8)
50% Further Uplift Grant - Rev	(2.1)	(2.1)	(7.6)	(7.6)	(7.6)
50% Further Uplift Grant - Cap	0.0	(3.3)	(0.8)	0.0	0.0

10. RISKS AND UNCERTAINTIES

10.1 To support the efficiency and development of key business systems, such as payroll, SYP will invest shortly into upgrading its Oracle system to be on an Enterprise Resource Planning (ERP) platform, utilising the Cloud rather than local hosting and storage. The implementation costs of this are assumed to be funded using capital resources. However, there is a risk that £1m to £1.5m of costs may need to be recognised in revenue during the year.

10.2 It is recommended that £1.5m of reserves are earmarked as contingency against this risk identified above having an impact in the revenue budget in 2020/21.

10.3 The core policing grant for 2020/21 also includes assumed continuation of non-recurrent grant support for increased pension costs, which is a planning assumption from the Home Office for 2020/21 but is yet to be finally confirmed as being built into the baseline grant position for 2021/22.

10.4 The late notification of the one year funding settlement for 2020/21 needs to be seen alongside the deferral of the 2019 multi-year Spending Review by the Treasury to 2020. Whilst the increase in grant to fund additional new 'Uplift' officers in 2020/21 is welcome, medium and longer term planning is compromised by the lack of certainty now regarding the position after March 2021.

11. RESERVES POSITION

11.1 The proposed budget position for 2020/21 is a £300k surplus, slightly increasing reserves.

11.2 Reserves can only be used once and, given the range of pressures and risks that SYP face, in particular to have to cover £19m of the funding of historic Legacy costs, it is necessary to hold additional reserves.

11.3 The 2020/21 Reserves Strategy is attached at Appendix 4 and reflects the reserves position over the life of the MTRS to 2024/25, maintaining a level of general reserve at or above 5% of the net revenue budget until 2023/24. It is recognised that reliance on reserves to balance annual budgets and medium term financial plans is not a sustainable position. It is only referred to here as a means of providing very short term cover for the forecasted financial position based on the estimates and assumptions outlined in section 9 above, before either certainty of further Uplift grant, or the impact of the other measures in section 9.12 are quantified and approved.

12. ROBUSTNESS OF ESTIMATES

12.1 Section 25 of the Local Government Act 2003, as amended by the Police Reform and Social Responsibility Act 2011, requires the Chief Finance Officer to report on the robustness of estimates used for the budget and the adequacy of reserves. The 2020/21 budget reflects the Home Office's financial settlement for grant and Council Tax precept.

12.2 The recommended 2020/21 precept increase and draft budget has been shared with the four South Yorkshire local authorities. The 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 28th January and Police and Crime Panel of 6th February.

12.3 It is recognised that including the estimated costs of the full expected Uplift of 487 officers by March 2023 but not estimating an increase in grant income beyond the full 2020/21 level is a prudent assumption in the MTRS. Some force areas have included 'guesstimated' further increases in Uplift grant for 2021/22 and onwards to help balance their medium term financial plans. There are some exemplifications for South Yorkshire included at paragraph 9.13.

12.4 Whilst the recruitment pipeline of future new recruits will necessarily be maximised, South Yorkshire will carefully monitor and manage the balance between all expenditure forecasts and certainty of income, in line with paragraph 9.12, to ensure financial sustainability is maintained.

12.5 The 2020/21 budget assumes £4.3m of budget savings which will require effective management to ensure full delivery in the year, predominantly through the Planning and Efficiency Group (attended by the PCC and Chief Constable) and supporting assurance activity of the Joint Independent Audit Committee, particularly around value for money as a key priority in the Police and Crime Plan.

12.6 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.

12.7 The remaining cost of legacy issues to 2023/14 is estimated to be £129m. Special Grant can be claimed from the Home Office. Under current rules, we could claim £110m of Special Grant, leaving a funding gap of £19m to be met from South Yorkshire's budget. The PCC and Chief Constable continue to actively lobby the Home Office to secure a more favourable funding position for South Yorkshire, recognising the unique reliance on Special Grant. Whilst the relationship with Home Office officials remains positive and supportive, no change to the funding rules for the future has been formally communicated to South Yorkshire yet. Therefore the 2020/21 budget and MTRS projections are based on entitlement under the current Special Grant rules, with three separate claims submitted annually and a contribution 'penalty' applied to each.

12.8 Also included is the 2020/21 Treasury Management Strategy Statement at Appendix 6.

13 SUMMARY

13.1 It is recommended that the increase in precept of 2%, equivalent to £3.88 per annum on a Band D property, is levied to support the proposed increase in police officer numbers in 2020/21 and the proposed 2020/21 budget and MTRS approved.

Attachments:

Appendix 1 – Precept proposal support letter from Police and Crime Panel
Appendix 2 – Summary of precept Consultation 2020/21
Appendix 3 – Commissioning Plan 2020/21
Appendix 4 – Reserves Strategy 2020/21
Appendix 5 – Capital Strategy 2020 to 2025
Appendix 6 – Treasury Management Strategy Statement 2020/21

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

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Appendix A

South Yorkshire
POLICE & CRIME PANEL

Our ref: JAGU / LN

Date: 7th February 2020

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

www.southyorks.gov.uk

Dr A Billings
Police and Crime Commissioner
South Yorkshire Police
Carbrook House
Carbrook Hall Road
SHEFFIELD 29 2EH

This Matter is being dealt with by: Linda Noble, Principal Policy Officer
Tel: 01226 772931
Email: LNoble@syjs.gov.uk

Dear Dr Billings

Proposed Council Tax Precept 2020/21

At the meeting of the Police and Crime Panel held on Thursday 6th February 2020, Members voted to support the Council Tax Precept for 2020/21 and the minute from the meeting is as follows:

A report of the Chief Finance and Commissioning Officer, OPCC was presented to notify the Police and Crime Panel of the South Yorkshire Police and Crime Commissioner's proposed Council Tax precept for 2020/21.

The Chair, Councillor Nevett moved to accept the proposed increase in Council Tax precept for 2020/21 equivalent to 2% and this was seconded by the Vice-Chair, Councillor Sansome.

A recorded vote was taken as follows:-

For accepting the proposed increase in Council Tax precept for 2020/21 - (9) Councillors Nevett, Sansome, Grocutt, Garbutt, Mitchell, Short, Wilkinson, Professor James and Mr Carter.

Against the proposed increase (1) Councillor Otten and abstained (0).

The proposal was approved.

RESOLVED – That Members of the Police and Crime Panel voted to accept the proposed annual increase in Council Tax precept for 2020/21 equivalent to 2%. This would be equivalent to a £3.88 increase for a Band D property to £198.04 for the year. For Band A properties this equated to an annual increase of £2.59 and £3.02 for Band B properties be approved.

Yours sincerely

Cllr David Nevett
Chair - South Yorkshire Police & Crime Panel

Appendix 2

POLICE AND CRIME PANEL 6TH February 2020
PUBLIC ACCOUNTABILITY BOARD 25th February 2020

Report of the Communications & Engagement Manager

CONSULTATION ON THE SETTING OF THE COUNCIL TAX PRECEPT 2020/21

1. PURPOSE OF REPORT

1.1 This report provides details of the consultation carried out with the public of South Yorkshire around the raising of the council tax policing precept for 2020/21.

2. BACKGROUND

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

2.1 The Government 2020/21 funding settlement issued on 22nd January 2020, announced that South Yorkshire Police will receive central grant funding of £206.2m in 2020/21, which is an increase on the previous year (£192.7m).

2.2 Central grant funding makes up 75% of the police budget. The other 25% is funded by the council tax precept. This coming year the Government is enabling Police and Crime Commissioners to increase the council tax precept by an amount equivalent to £10 on a Band D property (5.1% for South Yorkshire). Most households (around 75%) in South Yorkshire are Band A & B properties. The proposed 2% increase will equate to a precept rise of £2.59 p.a on a Band A property and £3.02 p.a on a Band B property.

2.3 The Government Spending Review (GSR) and funding settlement for the year ahead is normally published in December, but due to the General Election in December 2019 this was delayed to late January 2020, which reduced the amount of time the OPCC had to undertake a detailed consultation exercise to seek the public views on the detailed impact that this has on council tax and rate payers. However, through the support of South Yorkshire Police social media accounts and Community Alerts system, the participation rate in the survey has increased by 100% from last year.

3. INTRODUCTION

3.1 The PCC's Communications and Engagement Team has been consulting with the public throughout 2019 around the idea of a rise in the precept (the funding raised through the council tax that is paid to the Police to provide local policing and crime services). Local residents and businesses have been asked to consider whether they would support an increase in order to safeguard previous investments in extra police officers and fund the much-needed infrastructure and service improvements which would help them deliver a better service to the public.

3.2 Since the funding settlement announcement on 22 January the Engagement team have undertaken specific consultation within each district and have also as conducted an online survey, which has been distributed across social media and our contact databases, including the business community. This has been supported widely by

SYP's social media accounts and Community Alerts system to distribute it as widely as possible within the time that was available.

4. CONSUTATION & ENGAGEMENT METHODS AND FINDINGS

4.1 The consultation involved speaking with residents across the county to seek their views in relation to the proposed increase of the council tax precept to then ensure those views inform the setting of the precept for the coming year.

4.2 Members of the PCC's Communication and Engagement Team have attended numerous public events, meetings and engagement days, asking residents: *'Do you think South Yorkshire Police provides good value for money?'* and discussions have taken place around the willingness of those consulted to pay more within their council tax to improve policing services.

4.3 The results show that overwhelmingly the people of South Yorkshire do feel that SYP provide good value for money and are willing to pay a little bit more for policing and crime services.

4.4 This year, more than in previous year's, the public have voiced an increase in support for more funding to SYP, but have been consistent in saying they want to see value for their money and a more visible policing service.

4.5 The public were consulted via an online survey and face-to-face at public consultation events across the county. In total 2,611 residents have had their say during the consultation period.

Online survey

4.7 The online survey was launched on 22 January and closed on 31 January. It was been promoted through the media and social media channels of the PCC and South Yorkshire Police.

4.8 The survey was completed by 2,246 people. This can be broken down by each district as follows:

Barnsley	456 (20.28%)
Doncaster	582 (25.88%
Rotherham 427 (18.99%)	
Sheffield	781 (34.85%

4.9 Members of the public were provided with information about where the money is spent and were asked if they supported the option of an increase of at least 2% or no increase.

4.10 The results of the online consultation showed that 1,918 (85%) of respondents would accept a rise in their council tax precept. 328 (15%) said they would support no increase and a possible reduction in policing services.

4.11 The survey also asked residents to identify what they saw as policing priorities and to choose identify their top three priorities. These came out quite clearly as:

- Reducing serious violence – including knife and gun crime
- Preventing and tackling burglary
- Tackling drugs

4.12 A number of comments were also received suggesting that it is difficult to prioritise and that all areas of crime and anti-social behaviour

Face-to-face consultation (engagement stalls)

4.13 Between 22 - 31 January the Communications and Engagement Team have visited key points across the county to seek the views of residents and explore their reasons for wanting to pay more or not to pay more.

A total of nine events have taken place. Conversations have been had with and votes cast by 365 people at these events.

At each event the public were invited to say whether they would or would not support a rise in their council tax precept.

The results are set out below:

Yes: 199 (55%) **No:** 166 (45%)

VENUE	YES	NO	TOTAL
Totley Library	12	0	12
Crystal Peaks Shopping Centre	42	21	63
Doncaster Interchange	34	44	78
Rotherham Market	24	27	51
Nat West Bank, Sheffield	26	20	46
Greenhill Library	26	2	28
Dinnington Salvation Army	18	8	26
Goldthorpe Library	4	6	10
Barnsley Market	13	38	51
TOTAL	**199**	**166**	**365**

5. Summary

5.1 Overall those who took part in the consultation told us that they would, on the whole, be willing to pay more.

5.2 A total of 2,611 people took part in the specific consultation process – both face-to-face and the online survey. 1,918 (81%) were willing to pay more. However 494 (19%) expressed that they do not want to pay more money for the precept.

6. RECOMMENDATION

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

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

Appendix 3

PUBLIC ACCOUNTABILITY BOARD

Date: 25 February 2020

Report of the Chief Finance & Commissioning Officer

COMMISSIONING PLAN 2020/21

1 PURPOSE OF REPORT

The purpose of this report is to set out the Police and Crime Commissioner's (PCC's) commissioning plan for 2020/21. This links commissioning activity with the aims of the Police and Crime Plan and covers new areas/developments which are anticipated to require a commitment from the Partnership and Commissioning Team and/or budget during the year.

2 RECOMMENDATION

The PCC is asked to note and approve the commissioning plan for 2020/21.

3 BACKGROUND

PCCs were introduced in November 2012, under the Police Reform and Social Responsibility Act 2011 (the 2011 Act). Under the 2011 Act, PCCs have wide responsibilities including setting policing and crime priorities for their area in a Police and Crime Plan, setting the policing and crime budget, and commissioning services and awarding grants to support the delivery of priorities set out in their Police and Crime Plan.

Section 1 of the 2011 Act requires PCCs to secure the maintenance of an efficient and effective force for his or her area. Thus, police forces are key service providers and most of the policing and crime budget for an area is provided to the police force. PCCs have discretion to invest in crime and disorder reduction activities[1] from their main police grant in respect of their responsibilities for community safety in their area. In addition, since October 2014, PCCs have had responsibility for commissioning local victims' services[2].

[1] Under the Crime and Disorder Act 1998
[2] Under the Code of Practice for Victims of Crime, 2018; and EU Victims' Directive (2012/29/EU)

4 COMMISSIONING PLAN 2020/21

4.1 Alignment with Police and Crime Plan Aims

The PCC's updated Commissioning Strategy 2018-21 set out at a high level the commissioning budget split by funding stream. Building on work undertaken during 2019-20 the table below sets out the commissioning budget to demonstrate the anticipated financial commitment to activity to deliver the aims of the Police and Crime Plan. This will be monitored closely throughout the year as to how the funds are used in practice. In some instances, particularly where grants are to be bid for, or where a grant recipient has flexibility to utilise the grant in different ways it cannot be judged with precision in advance the proportion of the funding that will contribute to each aim.

2020/21 Commissioning Budget – Estimated Split by Police and Crime Plan Aim

	Victims of Crime Fund	Community Safety Fund	Partnership Fund	Priority Response Fund	Community Grants Fund	Total
	£000	£000	£000	£000	£000	£000
Protecting Vulnerable People	1,500	1,075	203	91	60	**2,929**
Tackling Crime and ASB	738	1,075	0	90	60	**1,963**
Treating People Fairly	0	238	0	23	30	**291**
Total	**2,238**	**2,388**	**203**	**204**	**150**	**5,183**

The Victims of Crime expenditure above is gross, before £1.84m of grant funding, comprising £1.64m from the Ministry of Justice (MoJ) for victims and an assumed grant of £0.2m for an Independent Sexual Violence Service to support victims and survivors of historic sexual exploitation in Rotherham.

A new template was designed last year which organisations receiving grant funding are required to complete to identify how the proposed activity contributes to the Police and Crime Plan aims. This is done by identifying which of the Police and Crime Plan areas of focus the activity is aimed.

Although the Police and Crime Plan aims remain the same in 2020-21 the grant template has been reviewed in conjunction with the Evaluation and Scrutiny Team and minor changes have been made. As documentation is received from grant recipients during the year the picture for how 2020-21 funding contributes to the Police and Crime Plan aims will be built. The template is attached for information.

4.2 Consideration in 2020/21

This section covers a number developments or service areas which are anticipated to require Partnership and Commissioning Team involvement. They are a mixture of external funding opportunities, co-commissioning prospects and new initiatives requiring PCC funding.

Early Intervention and Prevention: Youth Endowment Fund - Impetus

In 2019 the government selected a charitable foundation to deliver a Youth Endowment Fund as part of its long term plan to tackle serious violence. The Youth Endowment Fund supports programmes and community partnerships working with children at risk of being drawn into crime and violence. The Home Office is to provide £200m of funding over a 10 years period to support the fund. The fund is independently administered by Impetus, working in partnership with the Early Intervention Foundation and the Social Investment Business across England and Wales.

The endowment fund forms a key part of the government's support for a public health approach to tackling serious violence and will focus on long-term early intervention. Impetus will work with other funders to secure an additional £300m of funding through donations and investments. The first funding round has already occurred, it is understood that bids were made by organisations in South Yorkshire none were funded. The Commissioning Team will consider work with other partners to explore opportunities to bid for funding from the Youth Endowment Fund to support activities which were funded under the Early Intervention Youth Fund.

Violence Reduction Unit

In 2019-20 South Yorkshire was one of eighteen areas to successfully secure Home Office funding to set up a Violence Reduction Unit (VRU). We are informed that funding of £1.6m has been allocated for South Yorkshire to bid for in 2020/21. It is expected that members of the Partnerships and Commissioning Team will again be involved in securing services required by the VRU in 2020/21, including commissioning activity or supporting a grants programme. Potential overlap or co-funding opportunities between the VRU activity and Community Safety Partnership funding will be monitored and/or developed, where appropriate as the longer term sustainability of the VRU is developed.

Criminal Justice – Changes in the Probation Landscape:

In June 2021 offender management will return to public control. The new service will be configured on a regional footing, South Yorkshire will be part of the Yorkshire and the Humber region. New delivery partners will be engaged for each region by the MoJ through a competitive process with the new services officially starting in June 2021.

As part of this process, the MoJ is seeking to procure intervention services through a dynamic framework arrangement. Initial discussions have been had with PCCs nationally and locally as to how PCCs can and should be engaged with this process. MoJ is exploring co-commissioning, co-funding and partnership arrangements with PCCs. The Partnership and Commissioning team will remain involved in this process.

Assurance

Throughout 2020-21 the Commissioning Team will continue to work with the Evaluation and Scrutiny Team to agree further 'deep dive' pieces of work. These will provide assurance to the OPCC Senior Leadership Team, Partnerships and Commissioning Manger and other stakeholders on the effectiveness of funded services and identify areas for potential improvements. Additionally the feasibility of developing a dip sampling framework on commissioned services will be explored, the annual framework will build upon deep dives undertaken in 2019-20 and give an important opportunity to monitor services independently.

1. Commissioning Budget for 2020/21

The 2020/21 Commissioning budget summarised in paragraph 4.1 remains the same as the last financial year at £5.183m (£3.343m net of £1.84m of MoJ grant). The distribution of funding approved by the PCC is based on the following principles:

a) Ongoing contractual or other commitments.
b) Performance reported in the Commissioned Services Report as part of the Police and Partners Performance Framework.
c). Consultation with stakeholders.

1.1. Victims of Crime Fund

The PCC's Victims of Crime fund is allocated to the various contracts/grant funding arrangements below. The cost of these arrangements is predominantly offset by grant funding the PCC receives from the MoJ Victims Fund and MoJ Rape Support Fund. The total expected grant in 2020/21 is £1.840m.

- Adult Sexual Assault Referral Centre Service (contract)
- Victim Support Service (contract)
- Independent Sexual Violence Advocate Service (contract)
- National Crime Agency – Operation Stovewood, non-recent child sexual exploitation - Independent Sexual Violence Advocate Service (contract)
- Services to support victims of Domestic Abuse (contract/grants - co-commissioned/co-funded activity)
- Restorative Justice Service (contract - co-commissioned activity)

- Child Sexual Assault Assessment Service (contract - co-commissioned/co-funded activity)

Contracts are usually let for an initial period of two or three years, with the option to extend built in. Contracts are let through a competitive process; a service specification defines requirements and the successful bidder's tender response forms a part of the contract for delivery. All contracts have key performance indicators. This includes the frequency of reporting and is agreed at outset of the contract, although changes can be made throughout the life of the contract to meet OPCC reporting requirements.

During 2019/20 negotiations to extend contracts were undertaken with a number of services which were approaching the end of the initial contract period. In the coming year it will be a priority to consider the future arrangements and how these services might be re-commissioned.

Throughout 2020/21 work will continue with colleagues from the National Crime Agency (NCA) to ensure there is Independent Sexual Violence Advocacy (ISVA) service available to victims of non-recent child sexual exploitation in Rotherham. In 2019-20 the PCC received an uplift in the MoJ Victim Services grant to provide support to those victims and survivors identified as part of the NCA's Operation Stovewood investigation. Discussions have taken place with the MoJ regarding funding for 2020/21. Confirmation of the grant for 2020-21 is awaited, but is assumed to be continued at £0.2m.

Additionally, work will be undertaken to explore the possible integration of the two South Yorkshire ISVA services to minimise duplication and the possibility of differential levels of service.

The PCC co-funds activity with other partners. For instance, in 2020/21 the OPCC will continue to work with Local Authority partners to co-commission and contract manage services to support victims of domestic violence and will work with colleagues from NHS England to maintain sexual assault referral services.

Throughout commissioning and procurement processes there are discussions with relevant officers from South Yorkshire Police (SYP) to ensure that SYP's needs are considered. For all OPCC led contracts let to date, there has been a SYP representative on the evaluation panel.

Performance monitoring is agreed at the beginning of contracts/grant arrangements and reported quarterly to the OPCC. This performance reporting from services forms part of a commissioning performance report for the PCC and OPCC Senior Leadership Team. This then feeds into the PCC's wider performance report on delivery of Police and Crime Plan which reports to the Police and Crime Panel. This ensures that contributions to Police and Crime Plan aims and outcomes are demonstrated.

1.2. Community Grant Fund

There is an application process in place to facilitate the distribution of funding to support community grant activities (currently max £5,000 per organisation). An initial eligibility questionnaire and funding proposal form are available on the PCC's website (other formats are available on request). Each submission needs to identify a SYP Inspector who is aware of/supports the activity who will be approached for a view on the merits of the project and if it should be recommended to the PCC for funding.

Once submitted, the application is considered by a Grants Panel consisting of OPCC officers and a SYP representative (Inspector Community Safety Department). The panel meets monthly to consider the information provided on the application form. If the panel is to recommend the grant for funding, the relevant Inspector will be approached for their view on the project. Each successful applicant is provided with a decision letter and a bespoke monitoring form which sets out the funding conditions and measures which require evidence over the course of the project.
Successful grant applications are set out in a decision record which is published after each grants panel, and reported to the PCC's Countywide Community Safety Forum. A list of unsuccessful applicants is reported annually to the Police and Crime Panel but is not published. Results from various grants awarded in 2020-21 will reflected in the 2020-21 commissioning outturn report at year end.

The grants process has been reviewed during 2019/20 and a number of changes will be formally recommended to the PCC. The review included seeking feedback from both successful and unsuccessful grant recipients, how engagement with SYP officers might be improved to ensure continued involvement in the decision making whilst trying to minimise any impact on officer time. Additionally the fund terms and conditions and supplementary documentation were reviewed. It is expected that changes agreed will come into effect early in 2020-21, this will include the scheme being funded through income received under the Proceeds of Crime Act.

1.3. Partnership Fund

Predominantly this fund is used to support the county's safeguarding boards. At the start of the financial year, upon notification of funding allocation each recipient should submit a funding proposal document which sets out a brief narrative of activity which will be completed or supported using the funding. The funding proposal document requires reference to be made on which of the Police and Crime Plan aims and outcomes the funding supports.

The manner in which activity will be evidenced will also be set out. This may include the provision of meeting minutes/notes and copy of the annual report/marketing materials which are produced. Upon receipt of the funding form a purchase order number is provided, 100% payment is made on receiving an invoice. At year-end financial monitoring information is provided and any underspend would be repaid.

The Working Together to Safeguard Children 2018 guidance is statutory guidance on inter-agency working to safeguard and promote the welfare of children, it sets out expectations on funding arrangements. As it has not proved easy to secure all of the required information from the partnerships as is set out above during 2020-21 the Partnerships and Commissioning team will work with SYP and partners to understand how this budget could be used to support those arrangements in a more equitable and proportionate way. In addition to this the PCC will be asked to consider his stance on the OPCC involvement/attendance with said boards.

1.4. Community Safety Fund

Once notification of the funding allocation is made, each recipient (community safety partnership, drug treatment service and youth offending service) is required to set out for the PCC the planned use of the funding by completing a funding proposal document. This will contain a narrative summary of the proposed use of funds. The proposal will reference which of the Police and Crime Plan aims the funded activity will support and how this will be evidenced.

Proposed monitoring measures are reviewed by OPCC officers. In some cases, additional monitoring measures may be required. Monitoring information is provided bi-annually (mid-year and year end). Updates are also provided directly to the PCC by Community Safety Partnerships at the Countywide Community Safety Forum. Grant payments are released upon provision of monitoring information at mid-year and year-end, based on the actual expenditure.

Through 2019-20 work was undertaken by the Partnerships and Commissioning team to take part in relevant commissioning processes so as to continue to provide funding to support the Sheffield drug treatment service which provides the custody and court interventions for Sheffield and Rotherham residents. Further work is planned in 2020-21 to engage with the Head of Custody to ensure that SYP custody needs are met by these services. Further to this in 2020-21 work will be undertaken by the team to improve attendance at the various partnership boards relevant to this budget to better understand the use of funding and improve relationships with the partners.

1.5. One-Off Commissions

This budget line provides capacity for the PCC with to respond to emerging priorities or issues in year. If the PCC becomes aware of an issue that supports his Police and Crime Plan aims, he may wish to fund or co- fund the activity. For example, supporting a multi-agency approach to problem street culture in Sheffield will be funded during 2020-21.

Depending on the activity to be funded, either a contract, service level agreement, memorandum of understanding or grant arrangement may be developed. This will be done in conjunction with input/advice from the PCC's Chief Executive and Solicitor and Chief Finance Officer. It is intended in 2020-21 to make greater use of request/invitation to quote exercises. The arrangements will be supported by a decision record which sets the rationale for funding and arrangement agreed. In addition to this, with the OPCC Evaluation & Scrutiny Team, suitable KPIs will be identified to show the contribution to the PCC's Police and Crime plan.

1.6. Performance Monitoring

Throughout 2020-21 the commissioning performance report will continue to be developed so as to provide information to the PCC and OPCC Senior Leadership Team that service contracts and grant funding arrangements are delivering as required. Action will be taken to address under-performance and also issues requiring a strategic decision can be escalated.

A focus in 2020-21 will be continuing to develop the way in which monitoring information provided by recipients and ensuring that monitoring contributes to the Police and Crime Plan delivery report which is provided to the Police and Crime Panel. Activity will be undertaken in year to review funding in the various funding lines, including considering alternative approaches to funding to give parity across the county. Specific initiatives funded on a multi-year basis in the one-off commissions line will be reviewed to ensure they continue to deliver as planned. If they are to be continued the activity and budget will move to the most appropriate line in the Partnerships and Commissioning budget. The table below sets out broadly the funding and monitoring arrangements of each of the funding lines.

		Grant or Contract	**Monitoring**			
			Q1	**Q2**	**Q3**	**Q4**
Victims of Crime Fund	Funding Proposals/Tender Specifications	Both	X	X	X	X
Community Grant Fund	Eligibility Questionnaire + Funding Proposal	Grant	Due throughout the year depending on start date			
Partnership Fund	Funding Proposal	Grant				x
Community Safety Fund	Funding Proposal	Both		X		X
One-Off Commissions	Funding Proposal	Both	X	X	X	X

Police and Crime Commissioner Funding Proposal

South Yorkshire Police and Crime Commissioner
Your Voice

- Refer to the **Guidance Notes** when completing the Funding Proposal.
- All sections must be completed.
- Please complete using bullet points where appropriate

Applicant Details

1	Initiative or Activity	
	Name of Organisation	
	Lead Person	
	Email	
	Phone Number	
	Address	
	Website	
	Facebook/Twitter	

Police and Crime Plan Areas of Focus

2a	a) Helping victims, including children, of serious violence, domestic abuse, sexual offences	☐
	b) Helping those who are victims and survivors of child sexual exploitation and child criminal exploitation, human trafficking, slavery and hate crime	☐
	c) Helping those vulnerable to cyber and internet fraud	☐
	d) Demonstrate effective partnership working with other organisations	☐
	e) Ethnic minorities, especially BAME young people not being disproportionately represented in the criminal justice system	☐
	f) Public health approach to tackling crime e.g. knife crime or substance misuse related offending	☐
	g) Support victims and witnesses of crime throughout the Criminal Justice process	☐

About the Initiative / Activity

3	Is the initiative/activity statutory? Yes/No	***No***
4	What is the aim/purpose of the initiative or activity?	
5	How has the need been identified? Is there any evidence to support the effectiveness of this approach? If yes please summarise. If no, please give rationale for proposing the approach. *Word Limit - 300 words*	

6	What activities will be funded and how will they contribute to the delivery of the areas of focus (Q2)? *Word Limit – 500 words*	
7	How will you work in partnership with the police, and or other groups, public sector organisations to help deliver this activity?	

Evaluation / Monitoring

8	What data will be provided to monitor successful delivery of the activity? Please refer to the **Guidance Notes**	

If other funders are contributing please detail below. If not go to Q10

9	Name any other funders contributing to this initiative. Please list below.	Has funding been applied for or is it secured?	Amount (£)	Intended Use
		Applied		
		Applied		
		Applied		
		Applied		
		Applied		
	Total Budget for the initiative / activity		£	

10	**Total Budget requested from the PCC**	£

Budget Breakdown

11	Budget Heading	Description	Basis of Costing/how calculated	Proposed Expenditure £
	Employees			
	Premises			
	Transport			

	Supplies & Services			
	Promotional material / events & campaigns			
	Other			
	Total Proposed Expenditure			£

Please indicate you have read, understood and agree to the Police and Crime Commissioner Terms & Conditions. ☐

Date of completion: Enter Date

Email the completed Funding Proposal Form to: **grants@southyorkshire-pcc.gov.uk**

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Appendix 4

RESERVES STRATEGY 2020/21

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 2020/21 and beyond. The Finance Settlement from Government in 2020/21 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, in particular to increase police officer numbers towards the government's national 'Uplift' target of 20,000.

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,
- The likelihood of any additional government funding to fully fund the national Uplift programme, or offset unforeseen or unbudgeted expenditure, and
- The nature of any historic events and potential liabilities arising from these events e.g. the legacy issues associated with the Hillsborough Disaster and cases of child sexual exploitation (CSE).

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 2020/21

15. The balance as at 1 April 2020 for the total general and earmarked reserves was £50.4m. Of this, general reserves (£17.9m) were slightly over 5% of the net revenue budget. The remaining reserves are all earmarked, £25.1m for revenue and £7.4m for capital.

16. The planned use of reserves 2019/20 was £2.619m. However, the year end forecast at December 2019 predicts £2.528m will be contributed to reserves in the outturn. The reduction in the use of reserves is predominantly due to SYP's budget underspend and not needing to support Crime Review transitional costs using reserves and the change in forecasts for legacy issue costs that will now be incurred in later years.

17. The MTRS forecasts that there will be a surplus of £6.4m on the budget. However, reducing this is a funding deficit of £6.1m in relation to legacy issues (the difference between the costs of legacy issues to the South Yorkshire PCC, and the Special Grant income received from the Home Office towards legacy costs). The net impact is that a £300k contribution is forecast to be made to reserves in 2020/21.

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.

    The impact of this position is that the 2020/21 budget is in balance, but the MTRS requires the use of reserves to balance the budget from 2021/22 onwards. This is not a sustainable approach, as the prudent minimum reserve balance could only be sustained until 2023/24 and thus corrective action will be required to be taken.

    The 2020/21 budget report states that balancing the medium term financial position to ensure recurrent financial balance will require some, or all, of the following:

    a) Achieving clarity through the Spending Review regarding the level of grant funding to increase 'Uplift' police officer numbers beyond 151 towards achieving the est. 487 of the national 20,000 target, as the cost of the 487 officers (plus supporting staff, equipment and estates costs), is currently factored into the MTRS in full and may not be affordable,
    b) the Force's future integrated planning to balance demand and growth pressures and the need for efficiency savings,
    c) an improved deal on Legacy cost funding from the Home Office,
    d) use of Precept flexibility i.e. increases greater than the assumed 2% per annum.

Impact of Legacy Costs

19. 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 2020/21 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 2020/21 budget and MTRS.

    - Civil Claims: To assist budget setting, SYP's Legal Services team provided forecasts for 2020/21 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 2020/21 budget and MTRS.

20. The expected costs of legacy issues in 2020/21 and future years have been updated. Between 2019/20 and 2024/25 costs are expected to total £129m, with £110m of Special Grant receivable under the current rules. This leaves a funding gap of £19m 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, and these are included in the earmarked reserves.

21. 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 2020/21 as part of medium term planning and the monitoring of risks.

Summary and Conclusion

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

23. The future forecast of reserves is based on the 2020/21 MTRS, approved in February 2020. 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 reserve.

24. 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.

25. 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

Reserves Forecast 2020/21 to 2024/25

SOUTH YORKSHIRE POLICE & CRIME COMMISSIONER - PROPOSED BUDGET 2020/21											
RESERVES FORECAST (EXCLUDING INSURANCE PROVISION).											
	31.3.20	**Forecast**	**31.3.21**	**Forecast**	**31.3.22**	**Forecast**	**31.3.23**	**Forecast**	**31.3.24**	**Forecast**	**31.3.25**
	£000	**Movement**	**£000**	**Movement**	**£000**	**Movement**	**£000**	**Movement**	**£000**	**Movement**	**£000**
General Fund	23,570	6,424	29,994	727	30,721	-10,798	19,923	-18,094	1,829	-24,322	-22,493
Earmarked reserves	18,440	-6,128	12,312	-6,084	6,228	-4,799	1,429	-1,429	0	0	0
Total Reserves:	**42,010**	**296**	**42,306**	**-5,357**	**36,949**	**-15,597**	**21,352**	**-19,523**	**1,829**	**-24,322**	**-22,493**
5% min General Fund reserve	**13,160**		**13,577**		**14,077**		**14,705**		**15,068**		**15,505**

Note:

- Based on the published MTRS (Public and Crime Panel 6.2.20 and Public Accountability Board 25.2.20) 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

Home Office Category	Earmarked Reserve	Description/Use
Funding for planned expenditure over the period of the current medium term financial planning	PCC Innovation Reserve	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.
	Legacy Reserve	This reserve has been set aside from underspends on legacy costs to fund future potential liabilities in relation to Hillsborough and CSE.
	Devolved Reserve	As part of the devolved financial management arrangements, budget holders are allowed to carry forward underspends up to approved limits to fund expenditure in future years.
Funding for specific expenditure beyond the current planning period	Capital Reserve	This represents the remaining amount set aside to support the PCC's capital investment programme.

	Revenue Grant Reserve	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.
	PCC Commissioning Reserve	This reserve is for any underspends on the PCC's Commissioning Budget. It will be carried forward to use in future years for both revenue and capital spend.
As a general contingency/resource to meet other expenditure needs held in accordance with sound principles of good financial management	Insurance Reserve	This represents sums set aside to fund potential liabilities under the current insurance arrangements.
	Redundancy Reserve	This reserve is set aside to cover any future redundancy liabilities in relation to the Local Criminal Justice Board's (LCJB) Business Manager. The LCJB is funded by the PCC and external partners.

South Yorkshire Police and Crime Commissioner

Your Voice

CAPITAL STRATEGY 2020 TO 2025

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 2024/25.

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 2024/25, 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 2024/25 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 2020/21 to 2024/25

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 with be adjusted as/when disposals are completed and the disposal proceeds are received.

Capital Budget	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000	Forecast 2023/24 £000	Forecast 2024/25 £000
External Grants	1,071	287	287	287	287	287
Capital Receipts	0	0	0	0	0	0
Specific/Grants	0	0	0	0	0	0
Revenue Contribution		0	0	0	0	0
Contribution from Capital Reserves		0	0	0	0	0
Borrowing	19,726	27,524	27,920	9,192	4,563	4,663
Overall Total	**20,797**	**27,811**	**28,207**	**9,479**	**4,850**	**4,950**

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 below:

Capital Financing Requirement	2019/20 £000 Forecast	2020/21 £000 Forecast	2021/22 £000 Forecast	2022/23 £000 Forecast	2023/24 £000 Forecast	2024/25 £000 Forecast
Opening CFR	**54,849**	**73,562**	**100,097**	**126,878**	**134,773**	**137,898**
Capital Investment						
Property, Plant, Equipment	20,797	27,811	28,207	9,479	4,849	4,950
Source of Finance						
Capital Receipts	0	0	0	0	0	0
Govt Grants & Contributions	-1,071	-287	-287	-287	-287	-287
Sums set aside from revenue						
Minimum Revenue Provision	-1,013	-989	-1,139	-1,297	-1,437	-1,472
Closing CFR	**73,562**	**100,097**	**126,878**	**134,773**	**137,898**	**141,089**

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.

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 was applied up to 31 March 2019 whereby an equal annual amount is charged to the revenue account over the estimated life of the asset.

The second option is the annuity method. This links MRP to the flow of benefits from an asset where the benefits are expected to increase in later years. The 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 currently held by the PCC – 4%. This will be reviewed as time goes on to reflect changes to the average rate.

Police and Crime Commissioner for South Yorkshire

Treasury Management Strategy Statement 2020/21

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.

One objective of good treasury management is to ensure that the PCCs cash flows are planned adequately, and that cash is 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 security and liquidity, before considering investment return.

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

The contribution the treasury management function makes to the PCC is critical, as the balance of debt and investment operations should enable the PCC 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."*

Within South Yorkshire, the Humberside Commissioner's Treasury Team, under a Service Level Agreement manage the day to day treasury management activities for South Yorkshire. This arrangement has been in place since 2015.

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require that 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.

1.2.3 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 2020/21

The strategy for 2020/21 covers two main areas:

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

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

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and 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. Treasury Management training will be provided for JIAC members. Regular update seminars are provided throughout the year to both South Yorkshire and Humberside PCC staff involved in Treasury Management.

1.5 Treasury management consultants

The South Yorkshire PCCs uses Link Asset Services as his external treasury management advisors. Humberside PCC staff dealing with Treasury Management under the service level agreement also have access to Link advice.

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– 2022/23

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.

Capital expenditure £'000	2018/19 Actual £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000
Total	**5,481**	**20,797**	**27,811**	**28,207**	**9,479**

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 with be adjusted as/when disposals are completed and the disposal proceeds are received.

Financing of capital expenditure £'000	2018/19 Actual £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000
Capital receipts	439	0	0	0	0
Capital grants	2,074	1,071	287	287	287
Capital reserves	0	0	0	0	0
Revenue	0	0	0	0	0
Net financing need for the year	**2,968**	**19,726**	**27,524**	**27,920**	**9,192**

2.2 The PCC'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:

£'000	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Financing Requirement					
Total CFR	**54,849**	**73,562**	**100,097**	**126,878**	**134,773**
Movement in CFR	**541**	**18,713**	**26,535**	**26,781**	**7,895**

Movement in CFR represented by					
Net financing need for the year (above)	2,968	19,726	27,524	27,920	9,192
Less MRP/VRP and other financing movements	-2,427	-1,013	-989	-1,139	-1,297
Movement in CFR	**541**	**18,713**	**26,535**	**26,781**	**7,895**

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 was undertaken for 2019/20, and the following MRP policy statement approved:

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.

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

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

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

The review of the PCC’s MRP was undertaken, based on the Statutory Guidance with a view to implementing the change from the 2019/20 financial year.

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

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

The PCC approved a change to the MRP policy, adopting the annuity method from 1.4.19. This policy will continue into 2020/21.

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 PCCs 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 2019 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:

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
External Debt					
a. Debt at 1 April	42,370	39,870	37,070	63,094	89,514
Repayment of Debt	-2,500	-2,800	-1,500	-1,500	-1,500
Forecast new Debt	0	0	27,524	27,920	9,192
Total Debt	**39,870**	**37,070**	**63,094**	**89,514**	**97,206**
b. Transferred Debt 1 April	3,550	2,289	1,199	0	0
Repayment of transferred debt	-1,261	-1,090	-1,199	0	0
Total Transferred Debt	**2,289**	**1,199**	**0**	**0**	**0**
Gross debt at 31 March	42,159	38,269	63,094	89,514	97,206
The CFR	54,849	73,562	100,097	126,878	134,773
Under / (over) borrowing	**12,690**	**35,293**	**37,003**	**37,364**	**37,567**

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 2020/21 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

a. 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.

Operational boundary £'000	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	37,070	63,094	89,514	97,206
Other long term liabilities	2,289	1,199	0	0
Total	**39,359**	**63,094**	**89,514**	**97,206**

b. 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:

Authorised limit £'000	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	40,269	70,722	98,465	106,927
Other long term liabilities	2,289	1,199	0	0
Total	**42,558**	**71,921**	**98,465**	**106,927**

3.3 Prospects for interest rates

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

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

The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a “gradual pace and to a limited extent”. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

Bond yields / PWLB rates. There has been much speculation during 2019 that the bond market has gone into a bubble, as evidenced by high bond prices and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this, and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty-year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious to other western economies.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. 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.

In addition, PWLB rates are subject to ad hoc decisions by **H.M. Treasury** to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.

Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. 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.

3.4 Investment and borrowing rates

- Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.

- Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 basis points on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management. Now that the gap between longer term borrowing rates and investment rates has materially widened, and in the long term Bank Rate is not expected to rise above 2.5%, it is unlikely that this authority will do any further longer term borrowing for the next three years, or until such time as the extra 100 bps margin is removed (*amend as appropriate).*

- While the PCC will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.5 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 2020/21 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 borrowing 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 PCC and JIAC at the next available opportunity.

3.6 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.

3.7 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur due to the increase in PWLB interest rates on new borrowing.

If rescheduling was to be undertaken, it would be reported to the PCC at the earliest formal finance meeting.

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

Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 basis points to 180 basis points on loans lent to local authorities, consideration could also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bonds Agency

The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving, but our advisors will keep us informed.

3.9 Approved Sources of Long and Short term Borrowing

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Overdraft		●

Internal (capital receipts & revenue balances)	●	●
Finance leases	●	●

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.

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 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.

The following information summarises the credit worthiness policy:

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

	Colour (and long term rating where applicable)	Time Limit
Banks *	**yellow**	**5yrs**
Banks	**purple**	**2 yrs**
Banks	**orange**	**1 yr**
Banks – part nationalised	**blue**	**1 yr**
Banks	**red**	**6 mths**
Banks	**green**	**100 days**
Banks	**No colour**	**N/A**
DMADF	**UK sovereign rating**	**6 months**
Local authorities	**n/a**	**365 days**

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).

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

Investment returns expectations.

On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.25% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.25%

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

2019/20	0.75%
2020/21	0.75%
2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%
Later years	2.25%

- The overall balance of risks to economic growth in the UK is probably relatively even due to the weight of all the uncertainties over post-Brexit trade arrangements and the impact of an expansionary government spending policy (as expected in the Budget on 11th March).
- The balance of risks to increases or decreases in Bank Rate and shorter term PWLB rates are also broadly even.

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 2020/21 – 2022/23

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

Capital expenditure £'000	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Total	5,481	20,797	27,811	28,207	9,479

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.

%	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Total	2.98	1.84	1.83	1.79	2.12

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:

Maturity structure of fixed interest rate borrowing 2019/20		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to 2 years	0%	75%
2 years to 5 years	0%	80%
5 years to 10 years	0%	80%
10 years and above	25%	100%

5.1.5. Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.

5.2 APPENDIX: Interest Rate Forecasts 2020-2023

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

5.3 ECONOMIC BACKGROUND

UK. Brexit. 2019 was a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. The Conservative Government gained a large overall majority in the **general election** on 12 December; this ensured that the UK left the EU on 31 January. However, there will still be much uncertainty as the detail of a comprehensive trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open three possibilities; a partial agreement on many areas of agreement and then continuing negotiations to deal with the residual areas, the need for the target date to be put back, probably two years, or, a no deal Brexit in December 2020.

GDP growth took a big hit from both political and Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The forward-looking surveys in January have indicated that there could be a significant recovery of growth now that much uncertainty has gone. Nevertheless, economic growth may only come in at about 1% in 2020, pending the outcome of negotiations on a trade deal. Provided there is a satisfactory resolution of those negotiations, which are in both the EU's and UK's interest, then growth should strengthen further in 2021.

At its 30 January meeting, the Monetary Policy Committee held Bank Rate unchanged at 0.75%. The vote was again split 7-2, with two votes for a cut to 0.50%. The financial markets had been predicting a 50:50 chance of a rate cut at the time of the meeting. Admittedly, there had been plenty of downbeat UK economic news in December and January which showed that all the political uncertainty leading up to the general election, together with uncertainty over where Brexit would be going after the election, had depressed economic growth in quarter 4. In addition, three members of the MPC had made speeches in January which were distinctly on the dovish side, flagging up their concerns over weak growth and low inflation; as there were two other members of the MPC who voted for a rate cut in November, five would be a majority at the January MPC meeting if those three followed through on their concerns.
However, that downbeat news was backward looking; more recent economic statistics and forward-looking business surveys, have all pointed in the direction of a robust bounce in economic activity and a recovery of confidence after the decisive result of

the general election removed political and immediate Brexit uncertainty. In addition, the September spending round increases in expenditure will start kicking in from April 2020, while the Budget in March is widely expected to include a substantial fiscal boost by further increases in expenditure, especially on infrastructure. The Bank of England cut its forecasts for growth from 1.2% to 0.8% for 2020, and from 1.8% to 1.4% for 2021. However, these forecasts could not include any allowance for the predicted fiscal boost in the March Budget. Overall, the MPC clearly decided to focus on the more recent forward-looking news than the earlier downbeat news.
The quarterly Monetary Policy Report did, though, flag up that there was still a risk of a Bank Rate cut; "Policy may need to reinforce the expected recovery in UK GDP growth should the more positive signals from recent indicators of global and domestic activity not be sustained or should indicators of domestic prices remain relatively weak." Obviously, if trade negotiations with the EU failed to make satisfactory progress, this could dampen confidence and growth. On the other hand, there was also a warning in the other direction, that if growth were to pick up strongly, as suggested by recent business surveys, then "some modest tightening" of policy might be needed further ahead. It was therefore notable that the Bank had dropped its phrase that tightening would be "limited and gradual", a long-standing piece of forward guidance; this gives the MPC more room to raise Bank Rate more quickly if growth was to surge and, in turn, lead to a surge in inflation above the 2% target rate.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5% and then even further to 1.3% in December. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** growth in numbers employed has been quite resilient through 2019 until the three months to September, where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000 and then a stunning increase of 208,000 in the three months to November. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.4% in November (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

Coronavirus. The recent Coronavirus outbreak could cause disruption to the economies of affected nations. The Chinese economy is now very much bigger than it was at the time of the SARS outbreak in 2003 and far more integrated into world supply chains. However, a temporary dip in Chinese growth could lead to a catch up of lost production in following quarters with minimal net overall effect over a period of a year. However, no one knows quite how big an impact this virus will have around the world; hopefully, the efforts of the WHO and the Chinese authorities will ensure that the current level of infection does not multiply greatly.

USA. After growth of 2.9% y/y in 2018 fuelled by President Trump's massive easing of fiscal policy, growth has weakened in 2019. After a strong start in quarter 1 at 3.1%, (annualised rate), it fell to 2.0% in quarter 2 and then 2.1% in quarters 3 and 4. This left the rate for 2019 as a whole at 2.3%, a slowdown from 2018 but not the precursor of a recession which financial markets had been fearing earlier in the year. Forward indicators are currently indicating that growth is likely to strengthen somewhat moving forward into 2020.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment'. It also ended its programme of quantitative tightening in August 2019, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%. It left rates unchanged at its December meeting. Rates were again left unchanged at its end of January meeting although it had been thought that as the yield curve on Treasuries had been close to inverting again, (with 10 year yields nearly falling below 2 year yields - this is often viewed as being a potential indicator of impending recession), that the Fed could have cut rates, especially in view of the threat posed by the coronavirus. However, it acknowledged that coronavirus was a threat of economic disruption but was not serious at the current time for the USA. In addition, the phase 1 trade deal with China is supportive of growth. The Fed though, does have an issue that despite reasonably strong growth rates, its inflation rate has stubbornly refused to rise to its preferred core inflation target of 2%; it came in at 1.6% in December. It is therefore unlikely to be raising rates in the near term. It is also committed to reviewing its approach to monetary policy by midyear 2020; this may include a move to inflation targeting becoming an average figure of 2% so as to allow more flexibility for inflation to under and over shoot.

"The NEW NORMAL." The Fed chairman has given an overview of the current big picture of the economy by summing it up as **A NEW NORMAL OF LOW INTEREST RATES, LOW INFLATION AND PROBABLY LOWER GROWTH.** This is indeed an affliction that has mired Japan for the last two decades despite strenuous efforts to stimulate growth and inflation by copious amounts of fiscal stimulus and cutting rates to zero. China and the EU are currently facing the same difficulty to trying to get inflation and growth up. Our own MPC may well have growing concerns and one MPC member specifically warned on the potential for a low inflation trap in January.
It is also worth noting that no less than a quarter of total world sovereign debt is now yielding negative returns.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to nearly half of that in 2019. Growth was +0.4% q/q in quarter 1, +0.2% q/q in quarters 2 and 3; it then fell to +0.1% in quarter 4 for a total overall growth rate of only 1.0% in 2019. Recovery from quarter 4 is expected to be slow and gradual. German GDP growth has been struggling to stay in positive territory in 2019 and grew by only 0.6% in 2019, with quarter 4 potentially being a negative number. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and in 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March 2019 meeting, it said that it expected to leave interest rates at their present levels "at least through to the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they would have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period.** At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by 'growth friendly' fiscal policy. There have been no changes in rates or monetary policy since October. In January, the ECB warned that the economic outlook was 'tilted to the downside' and repeated previous requests for governments to do more to stimulate growth by increasing national spending. The new President of the ECB, Christine Lagarde who took over in December, also stated that a year long review of monetary policy, including the price stability target, would be conducted by the ECB

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The most recent results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

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

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

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

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 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This 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 in December 2020**, 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 were 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.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably relatively even due to the weight of all the uncertainties over post-Brexit trade arrangements and the impact of an expansionary government spending policy (as expected in the Budget on 11th March).
- The balance of risks to increases or decreases in Bank Rate and shorter term PWLB rates are also broadly even.

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

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

- **Post Brexit trade negotiations** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.
- **Other minority EU governments.** Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

- **Brexit** – if a comprehensive agreement on a trade deal was reached that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

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:

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

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