PUBLIC ACCOUNTABILITY BOARD

24 February 2021

Report of the Chief Finance Officer

Budget and Council Tax Precept for 2021/22

1. PURPOSE OF REPORT

1.1 The Police and Crime Commissioner (PCC) is required to approve the 2021/22 budget and issue the Council Tax precept by 1 March 2020.

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

2. RECOMMENDATION

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

a) A budget requirement for 2021/22 of £296.0m, as set out in Section 7 of the report;
b) A proposed annual increase in Council Tax precept for 2021/22 of £15.00 for a Band D property. This takes the council tax to £213.04 for the year for a Band D property. This equates to an annual increase of £10.00 for a Band A property (19 pence per week) and £11.66 for a Band B property (22 pence per week). Most properties in South Yorkshire are in Band A (58%) and Band B (17%).
c) The Reserves Strategy as set out in Appendix E;
d) A Capital Strategy and Programme for 2021/22 of £17.799m as set out in Appendix F;
e) The Treasury Management Strategy and Minimum Revenue Provision policy statement (Appendix G) and the recommendations contained therein;
f) To note the Chief Finance Officer’s statement on the robustness of estimates as set out in Section 8 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 2021/22 budget priorities and precept increase proposed in this report have been previously debated and agreed at the following:

Meeting of South Yorkshire Council Leaders	25 January 2021
Police and Crime Panel Budget Familiarisation meeting	26 January 2021
Police & Crime Panel	3 February 2021

3.3 The Police & Crime Panel (PCP) agreed to support the proposed precept for 2021/22 at its meeting on 3 February 2021. The full response from the PCP is attached at Appendix A.

3.4 The outcomes of consultation with the public regarding the policing precept are attached at Appendix B. 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. POLICE AND CRIME PLAN RENEWED

4.1 The PCC reviews his Police and Crime Plan (2017-21) each year. The plan has been refreshed in January 2021, and a plan addendum determined which will be in force until the PCC elections being held in May. The PCC's priorities have remained the same:

- Tackling crime and ASB
- Protecting vulnerable people
- Treating people fairly

4.2 During the period of the Covid-19 restrictions the PCC has also been focusing on the following:

- Ensuring the Chief Constable has the resources to respond to the emergency
- Ensuring the police respond in ways that are necessary, sufficient, proportionate and ethical (holding to account)
- Facilitating effective partnership working in community safety, violence reduction and criminal justice
- Commissioning and co-commissioning services, particularly for victims of crime, and providing grants for combatting crime and anti-social behaviour

4.3 South Yorkshire Police (SYP) has coped well during the restrictions. Officer and staff attendance has remained high and SYP has worked successfully with partners in the Local Resilience Forum to manage the emergency situation in the four districts.

4.4 For the period January to May 2021 the focus will be on the following areas:

- Neighbourhood crimes
- Domestic Abuse
- Organised crime gangs and serious violence
- Speeding and Road Safety
- Rural Crime
- Cyber Crime
- Issues of disproportionality and inclusivity
- Operating Model of SYP
- What is working to reduce crime and ASB, improve service to victims, understand and improve representation of BAME within the workforce
- Partnership working, including work with local criminal justice agencies

4.5 A copy of the addendum to the Police and Crime plan can be found at Appendix C. The plan has been derived from a variety of sources, including significant work that has been undertaken around the Chief Constable's assessment of need.

4.6 In terms of Force performance, much progress has been made in recent years, with the latest Her Majesty's Inspectors of Constabulary, Fire and Rescue services (HMICFRS) police effectiveness, efficiency and legitimacy report commending South Yorkshire Police (SYP) as 'good' in all areas, and outstanding in some sub-categories. This, in essence is an endorsement that SYP effectively prevents and tackles crime and anti-social behaviour, protects vulnerable people and tackles serious and organised crime well. The Force has a good understanding of meeting demand, using resources, and planning for the future, as well as treating the workforce fairly, with that workforce behaving ethically and lawfully.

5. 2021/22 NATIONAL FUNDING SETTLEMENT

5.1 The Home Office 2021/22 funding settlement announced additional funding of £720m, for local policing, with 45% of this expected to come from increased local taxation (£320m). The settlement gives Police and Crime Commissioners (PCCs) in England flexibility to increase funding in 2021/22 of up to a £15 council tax limit on a Band D property. Government allocation calculations assume the maximum precept increase.

5.2 The settlement is for one year only due to Covid-19, and next year's anticipated spending review will influence funding allocations for 2022/23 onwards. As of now, that position is uncertain.

5.3 Although South Yorkshire has received a 4.9% cash increase, based on current inflation projections this represents a 1.85% real terms reduction in funding after uplift is excluded, based on current inflation figures built into the budget. Despite the announced public sector pay freeze (excepting those earning less than £24k, who will receive £250, and doctors and nurses), there are still further effects of this year's pay inflation which need including in the budget, along with contractual price increases for goods and services.

5.4 The Home Office has assumed a £15 increase in precept, and that this will raise £76.7m in South Yorkshire. Based on the latest taxbase figures, after a £15 increase there will be a gap of £2.1m as the reduction in taxbase hasn't been taken into account by the Home Office. PCC's will however be granted some further funding from the £670m set aside nationally for council tax support (£1.7m in South Yorkshire), which may cover some of the deficit.

5.5 Grant has been received to continue with uplift, however the uplift has now been extended to Regional and Organised Crime units (ROCU). Although the overall government uplift target remains the same (487 anticipated for South Yorkshire in total), the phasing of the uplift has been changed; nationally 6,000 officers will be recruited in 21/22, and 8,000 thereafter, as opposed to the 8,000 then 6,000 originally intended.

5.6 The capital allocation (£0.3m), police pensions grant (£2.6m) and council tax support and freeze grants (£10.8m) have continued at a 'flat cash' rate.

5.7 The Violence Reduction Unit funding has recently been announced, with £1.6m being available to South Yorkshire (the equivalent of previous years), subject to a bidding process.

6. POLICE OFFICER NUMBERS

6.1 The government has committed to increase police officer numbers by 20,000 before the next general election. The funding settlement is predicated on each force playing its part. For South Yorkshire, the Home Office's target number for 2021/22 is 149 (of which 7 must go to the Regional Organised Crime Unit).

6.2 Uplift funding of £67k per officer has been granted, which is in line with national assumptions. 24% of the grant continues to be ring fenced (£2.4m from a total of £10.0m in SY), and will be released quarterly in line with the achievement of officer numbers. Although officers are fully funded for the first year of service, a gap appears after this.

Last year we committed to increase numbers by a further 79 from our own resources. This is in addition to recruiting to fill vacancies that arise from the 'business as usual' existing police officer workforce. The recruitment profile is shown in the table below:

Recruitment type	To March 2020	To March 2021	To March 2022	To March 2023	Total
Assumed National Allocation	2,000	4,000	6,000	8,000	20,000
Business as usual (i.e. to replace leavers)	154	218	170	237	779
Local uplift	50	73	79	18	220
National Uplift	30	121	149	187	487
Total in year	**234**	**412**	**442**	**398**	**1,486**

6.3 South Yorkshire anticipates its share of the full 20,000 'Uplift' officers will be 487 by March 2023, although the Home Office's approach to grant funding the remaining 8,000 officers after 2021/22 won't be confirmed until the Spending Review is published.

6.4 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). Estimated uplift grant has been reduced from 2022/23 as there's an expectation that the initial set up element of costs will be removed from the allocation in future years. This is in line with national guidance.

7. 2021/22 BUDGET SUMMARY AND PRECEPT PROPOSAL

7.1 The PCC is recommended to agree the proposal to levy an annual increase in the precept equivalent to £15.00 per annum on a Band D property. It is worth noting that although in South Yorkshire 75% of properties are in bands A or B (58% and 17% respectively), 34% of band A households, and 17% of band B households claim a reduction in council tax through the council tax reduction schemes[1], and these people will be impacted to a lesser extent. The following table shows the proposed precept and weekly increase for each council tax band:

[1] Based on band D equivalents

	Proposed Precept 21/22	Weekly Increase	Properties in each band
	£	£	%
Band A	142.03	0.19	57.5
Band B	165.70	0.22	17.2
Band C	189.37	0.26	12.3
Band D	213.04	0.29	7.1
Band E	260.38	0.35	3.6
Band F	307.72	0.42	1.6
Band G	355.07	0.48	0.8
Band H	426.08	0.58	0.1
Total:			100.0

7.2 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

7.3 SYP's approach will complement the work of partner organisations commissioned using the PCC's partnerships and commissioning budget. A copy of the commissioning needs assessment report can be found at Appendix D.

7.4 The proposed budget of £296.0m includes investment to support the further increase in police officer posts of 228 (79+149) in the year identified in the table above. Also included is investment into prioritised growth relating to essential core and uplift delivery, enhancement of the operating model and Force priorities. This includes the Digital Forensics Unit review (£1.6m), officer uplift (£1.1m), improved IT structure (£778k), the technology enabled team (£420k) and communications data review (£405k).

7.5 Savings of £2.6m in 21/22 are reflected but the Force will have to find recurrent savings of £10.7m to balance the MTRS. The Force has gained a better understanding of demand and is developing its workforce strategy; future savings plans will be based on work being undertaken by the change programme team.

7.6 Legacy issues are currently forecast to be £133m to 2025/26, requiring £20m 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, the cost of the National Crime Agency's ongoing investigation into historic child sexual exploitation in Rotherham and CSE civil clams).

7.7 The assumptions above produced the following proposed budget and MTRS:

2021/22 Budget and Medium Term Financial Strategy					
	21/22 £m	**22/23 £m**	**23/24 £m**	**24/25 £m**	**25/26 £m**
SY Police Force	282.4	288.3	294.3	301.4	310.1
OPCC	2.1	2.1	2.3	2.5	2.6
Commissioning and Partnerships	3.3	3.3	3.3	3.3	3.3
Capital Financing	2.4	2.9	3.7	4.1	4.5
Legacy Costs (net)	5.8	5.3	4.0	2.4	2.4
Total Expenditure	296.0	301.9	307.6	313.7	322.9
Funding	-290.2	-303.8	-304.7	-307.5	-309.8
Net (surplus) or deficit.	5.8	(1.9)	2.9	6.2	13.1

7.8 The impact of this position means that the 2021/22 requires the use of £5.8m from reserves to balance the budget in 2021/22, and a combination of savings and use of reserves amounting to £19.9m throughout the MTRS period. This is not a sustainable approach, as the prudent minimum reserve balance could only be sustained until 2025/26 (see Appendix E).

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

- Achieving clarity through the Spending Review regarding the level of grant funding to increase 'Uplift' police officer numbers beyond 2021/22
- the Force's future integrated planning to balance demand and growth pressures and the need for efficiency savings,
- an improved deal on Legacy cost funding from the Home Office
- Precept flexibility.

8. ROBUSTNESS OF ESTIMATES

8.1 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 recommended 2021/22 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 Police and Crime Panel of 3rd February.

8.1.1 Funding settlement

The budget has been prepared on the basis of the Home Office's final funding settlement for grant and council tax precept 2021/22.

The notification of another one year funding settlement for 2021/22 needs to be seen alongside the deferral of the 2019 multi-year Spending Review by the Treasury to 2020, then 2021. Whilst the increase in grant to fund additional ‘Uplift’ officers in 2021/22 is welcome, medium and longer term planning is compromised by the lack of certainty after March 2022.

8.1.2 Taxbase and collection fund balances.

The final tax base and collection fund positions are those notified by the Local Authorities. The position is extremely complicated due to Covid-19 and the current economic situation. Estimated ‘exceptional balances’ have been included in the MTRS calculations, however any associated income grant will not be assessed by MHCLG until after the 20/21 closure of accounts when the final impact can be assessed accurately. On this basis this income has not been included in the MTRS, based on current estimates this could amount to £438k p.a. over the next three years.

8.1.3 Officer Uplift

The estimated costs and income associated with the recruitment of a further 336 officers until 2023 are included in the budget. Given that we only have a one year settlement, the position for 2022/23 isn’t yet certain. This will be re-assessed in line with future government announcements.

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 to ensure financial sustainability is maintained.

8.1.4 Savings

The 2021/22 budget assumes £2.6m 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.

8.1.5 Legacy Issues

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.

The remaining cost of legacy issues to 2024/25 is estimated to be £133m. Special Grant can be claimed from the Home Office. Under current rules, we could claim £113m of Special Grant, leaving a funding gap of £20m 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 2021/22 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.

8.1.6 Covid 19

There is significant uncertainty whether covid-19 costs will be re-imbursed by the Home Office. Currently Covid-19 costs of £4.3m have been incurred since March 2020 with £1.8m having been re-imbursed to date (for medical grade PPE and lost income). Although some growth has been built into the MTRS to cover Covid expenditure, the Home Office position on the re-imbursement of Covid costs is not certain.

8.1.7 National charges

The Home Office top slices for some nationally provided functions, but separate charges are levied for others.

Charges for the National Police Air Service (NPAS) are being reviewed during February 2021 and we are awaiting further information around the detail of the options. The NPAS budget in the MTRS assumes inflation on the current charges.

There has been recent notification that the emergency services network (ESN) business case is being reviewed, and a number of changes have been made within the programme team. A revised, high level programme plan is being presented to the national board on 17th February. At this stage £655k has been included in MTRS for network lines and dual running. £7.6m has also been included in the capital programme.

8.1.8 Oracle System

To support the efficiency and development of key business systems, such as payroll, SYP has invested 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 depending on the approach taken by the external auditors.

8.1.9 McCloud pensions

The McCloud and Sargeant Judgements concerned the introduction of career average revalued earnings (CARE) pension schemes to replace the former final salary based pension schemes as part of the Hutton recommendation to reform public service pension schemes. Under the changes introduced to each scheme, members were required to transfer to the new schemes from specific transition dates. There was protection provided for older members under each scheme.

The McCloud and Sargeant Judgements have upheld the claimants' cases that the method of implementation of the new schemes discriminated against younger members.

The Government were refused leave to appeal the McCloud and Sargeant Judgements on 27 June 2019. This means that the various parties return to the respective employment tribunals to formulate a remedy which will resolve the age discrimination of the pension changes.

Whilst the McCloud and Sargeant Judgements are concerned with the judges and uniformed police and firefighters pension schemes, the Chief Secretary to the Treasury announced on 15 July 2019 that the rulings would apply to all public service pension schemes. As a result each scheme is expected to produce its own solution to meet the implications of the two Judgements, but it is expected that these are likely to apply the same principles as the remedies for the judges and police schemes, which are possibly not expected to be developed until well into 2021/22 or 2021/22.

The costs of the ruling are likely to be significant, however work is ongoing nationally with the Home Office around the implications of it. At this stage no additional costs have been recognised in the MTRS in respect of this ruling.

9. ADEQUACY OF RESERVES

9.1 If the precept is increased by £15 for the year, the proposed budget position for 2021/22 would show a £5.8m deficit, which can be wholly attributed to legacy costs, but will need to come from reserves.

9.2 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. The 2021/22 Reserves Strategy is attached at Appendix E.

9.3 The strategy reflects the reserves position over the life of the MTRS to 2025/26, maintaining a level of general reserve at or above 5% of the net revenue budget until the end of 2025/26. It is recognised that reliance on reserves to balance annual budgets and medium term financial plans is not a sustainable position and is only referred to here as a means of providing very short term cover for the forecasted financial position based on the estimates and assumptions outlined above, before either certainty of further Uplift grant, or the impact of the other measures in section 7.9 are quantified and approved.

10. SUMMARY

10.1 It is recommended that the £296.0m budget be approved, and that the increase in precept of £15.00 on a Band D property, is levied to support the proposed increase in police officer numbers in 2021/22, along with the improvement of the existing service. It is recognised that despite the precept increase, there would still have to be some savings and use of PCC resources.

10.2 The outcomes of consultation with the public regarding the policing precept are attached at Appendix B. 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.

Attachments:

Appendix A	Police and Crime Panel precept setting letter
Appendix B	Public consultation report
Appendix C	Police and Crime Plan addendum
Appendix D	Commissioning needs assessment report
Appendix E	Reserves Strategy
Appendix F	Capital Strategy
Appendix G	Treasury Management Strategy

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

This page is intentionally left blank

Appendix A

South Yorkshire
POLICE & CRIME PANEL

Our ref: JAGU / DN / LN

Date: 3rd February 2021

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 2021/22

At the meeting of the Police and Crime Panel held on Wednesday 3rd February 2021, Members unanimously voted to support the Council Tax Precept for 2020/21 and the minute from the meeting is as follows:

Item 9 - Proposed Council Tax Precept and Revenue Budget for 2021/22

A report of the Chief Finance 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 2021/22.

The Chair, Councillor Nevett referred to the recommendation in the report which asked the Police and Crime Panel to consider a proposed annual increase in Council Tax precept for 2021/22 of £15.00 for a Band D property. This would take the Council Tax to £213.04 for the year for a Band D property. This equates to an annual increase of £10.00 for a Band A property (19 pence per week) and £11.66 for a Band B property (22 pence per week). Most properties in South Yorkshire are in Band A (58%) and Band B (17%).

A recorded vote was taken and recorded as follows:-

For accepting the proposed increase in Council Tax precept for 2021/22 – (12) Councillors Nevett, Sansome, Cherryholme, Garbutt, Grocutt, Otten, Pickering, Short, Steinke, Wilkinson, Mr A Carter and Professor A James.

Against the proposed increase (0) and abstained (0).

The proposal was approved.

RESOLVED – That Members of the Police and Crime:-

i) Voted unanimously to accept the proposed annual increase in Council Tax precept for 2021/22 of £15.00 for a Band D property. This would take the Council Tax to £213.04 for the year for a Band D property. For Band A properties this equated to an annual increase of £10.00 (19 pence per week) and £11.66 for a Band B property (22 pence per week) be approved.

ii) Noted that most properties in South Yorkshire are in Band A (58%) and Band B (17%).

Yours sincerely

D A Nevett

Cllr David Nevett
Chair - South Yorkshire Police & Crime Panel

PUBLIC ACCOUNTABILITY BOARD

Date: 24 February 2021

Report of the Communications & Engagement Manager

CONSULTATION ON THE SETTING OF THE COUNCIL TAX PRECEPT 2021/22

1. PURPOSE OF REPORT

1.1 This report provides details of the consultation carried out with the public of South Yorkshire around the raising of the council tax precept for 2021/2022.

2. BACKGROUND

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

2.2 The Government Spending Review and Autumn Statement, last month (December 2020), announced that South Yorkshire Police will receive central core grant funding of £215.6m in 2021/22, which is an increase on the previous year (£203.5m).

2.3 Central grant funding makes up 74% of the police budget. The other 26% 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 £15 on a Band D property (7% for South Yorkshire). Most households (around 75%) in South Yorkshire are Band A & B properties. The proposed 7.57% increase will equate to a rise precept rise of £10.00 p.a on a Band A property and £11.66 p.a on a Band B property.

2.4 The Government Spending Review (GSR) and Autumn Statement was published on 17 December 2020 and the formal consultation process began on 18 December and ended on Monday 18 January.

3. INTRODUCTION

3.1 This year, due to the Covid pandemic, the Consultation and Engagement Team have had very little opportunity to conduct the usual face-to-face engagement to hear residents' opinions on their contribution to the council tax precept. Normally the team are out and about at events and meetings throughout the year, speaking to people about whether they think their contributions are value for money. This enables us to build up a picture of whether the public may be likely to support a precept rise through these conversations.

3.2 This year a pre-consultation on policing priorities and willingness to pay more was undertaken during the autumn to act as a pre-cursor to the statutory consultation that took place in December and January. The aim of this was to gather the views of the public on policing priorities and to seek a view from the public as to their support for a possible increase in the council tax precept. As part of this process we also asked which areas the public would like to see more money spent on and asked if they would be willing to pay a little more in their council tax to maintain or improve policing services.

3.3 On 19 December we launched the formal statutory consultation around the setting of the precept.

4. CONSULTATION & ENGAGEMENT METHODS AND FINDINGS

Priorities Survey

4.1 During the summer when restrictions lifted we were able to conduct a minimal amount of socially distanced face-to-face engagements within some neighbourhoods alongside local neighbourhood teams. As this was limited we undertook the priorities survey to enable us to gauge what the public would say.

4.2 The survey took place during October and early November. It was promoted through social media and SYP Alerts.

4.3 A total of 1,972 responses were received but some people skipped this question and answers were provided by 1,739 people (88% of respondents). Of those that answered 69% said they could afford to pay a little more.

Precept Consultation

4.4 The consultation process normally takes place throughout the county at various venues face-to-face and is supported by an online survey. This year due to Covid restrictions the consultation was purely online.

4.5 During the 4 week period the survey was promoted heavily across the OPCC social media channels (Twitter and Facebook) and was supported by South Yorkshire Police social media accounts – both corporate and neighbourhood accounts – as well as on social media accounts of partners.

4.6 The survey was circulated twice via SYP Alerts to in excess of 30,000 residents who have signed up to receive the service via email.

4.7 The Police and Crime Commissioner writes a weekly Blog which is circulated to over 1,000 individuals and organisations and information on the survey and the link were included in this on two occasions during the consultation period. It was also supported by a press release and articles within the local media.

4.8 A total of 2,160 responses were received and the results show that 67% of respondents are supportive of the maximum £15 (Band D property) increase.

4.9 The survey respondents can be broken down by each district as follows:

Barnsley	325 (15.51%)
Doncaster	531 (25.33 %
Rotherham	366 (17.46%)
Sheffield	864 (41.22%

4.10 Members of the public were provided with information about the proposed increase and where the money is spent and provided with four options which indicated the weekly proposed increase and asked which one they would support:

Option1 - 28p per month increase for a Band A property (42p for Band D)
Option 2 - 56p per month increase for a Band A property (84p for Band D)
Option 3 – 84p per month increase for a Band A property (£1.25 for Band D)
Option 4 – No increase

4.11 It was explained how each option would affect the increase in police officer numbers and whether service improvements would be affordable.

4.12 The results of the online consultation showed that 1,449 (67%) of respondents would accept an increase of £15, based on a Band D property. 137 (6%) said they would support no increase and a possible reduction in policing services.

4.13 Of the other options 15% were in favour of Option 2, 12% in favour of Option 1 and 6% in favour of Option 4 (no increase).

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

- **Neighbourhood crime** – *any crime which, through its sheer volume, has a significant impact on the community and the ability of the local police to tackle it. This includes priority crimes such as anti-social behaviour, burglary and vehicle-related criminality, but can also apply to criminal damage or assaults.*

- **Visible policing** - *the officers that you see both on the streets and how visible they are on platforms such as social media.*

- **Resources to tackle serious crime** - *specially trained police officers and staff to investigate crimes that need a 999 response. This may include those involving gangs, guns and knives as well as those of a serious sexual nature.*

4.15 Using the free text box where residents were asked to provide further comments on policing priorities that are important to where they live analysis involving key work responses showed that residents felt the following areas were a priority to them:

- 138 records include reference to **visibility/ police presence**
- 88 record include reference to **community/neighbourhood**
- 84 records include reference to **burglary/ break in**
- 77 records include reference to **ASB**
- 72 records include reference to **drugs/drug dealing**
- 45 records include reference to **speeding**
- 37 records include reference to **theft**

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 2,160 people took part in the specific consultation process – both face-to-face and the online survey. 1,449 (67%) were willing to pay more.

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 C

Addendum to Police and Crime Plan for 2017-2021

(Updated February 2021)

In 2020, coronavirus changed everything. Amongst everything else, it led to the postponement of the Police and Crime Commissioner (PCC) elections until 7 May 2021[1]. In turn, this has necessitated my setting out an interim arrangement for the Police and Crime Plan until the new or returning PCC draws up a new Plan.

The Police and Crime Plan priorities will remain the same:

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

During the period of the restrictions I have been focusing on the following:

1. **Ensuring the Chief Constable has the resources to respond to the emergency**

2. **Ensuring the police respond in ways that are necessary, sufficient, proportionate and ethical (holding to account)**

3. **Facilitating effective partnership working in community safety, violence reduction and criminal justice**

4. **Commissioning and co-commissioning services, particularly for victims of crime, and providing grants for combatting crime and anti-social behaviour**

South Yorkshire Police (SYP) has coped well during the restrictions. Officer and staff attendance has remained high and SYP has worked successfully with partners in the Local Resilience Forum to manage the emergency situation in the four districts.

In using emergency powers, SYP has engaged with people to educate them on the restrictions, only resorting to fines when absolutely necessary. Communities have largely complied with legislation and guidance.

We will continue to monitor the force's response to the emergency powers.

South Yorkshire Police is unrecognisable from the police force it was in 2016. The Force has fundamentally changed its operating model. Neighbourhood policing teams (NPTs) have been introduced in all our four districts and major improvements have been made to 999 and 101 call-handling and other services in Force Communications (Atlas Court).

South Yorkshire Police is now the most improved in the country and has been rated 'Good' in all its most recent inspection areas by Her Majesty's Inspectorate ('Outstanding' in the area of Ethical Leadership').

[1] under the Coronavirus Act 2020

DRAFT

But in order to sustain and build on these improvements, we need the right level of resources, and be able to match those resources to our analysis of current and future demand on the police.

During the first national lock-down, SYP saw a reduction in demand, though crime then returned to pre-virus levels with some increase in relation to domestic abuse and mental health issues.

It is important to understand that the police have a greater role in making our communities safe. They:

- Stop people being victims of crime (through awareness-raising, education and other prevention work)
- Stop people becoming criminals (through working with partners to provide alternatives to crime, and to intervene and disrupt crime)
- Stop people being in fear of crime (through activity to provide reassurance to communities, e.g. through the media, social media and patrols in neighbourhoods).

Focus of concerns January - May 2021

Towards the end of 2020 I undertook two countywide surveys to gauge public opinion and peoples' views on what issues we should focus on until a new Police and Crime Plan is produced. I have combined this with the work my office undertakes in understanding crime and the demand facing the Force and where their performance needs to be improved. I have grouped these areas of focus in this way:

Neighbourhood crimes

Residential and commercial burglary, vehicle crime, sexual offences, hate crime, anti-social behaviours (ASB) and violence reduction.

Domestic Abuse

Principally against women, but also the impact of domestic abuse on children in the household.

Organised crime gangs and serious violence

Drug dealing, knife and gun crime, child sexual and criminal exploitation, county lines.

Speeding and Road Safety

Improving road safety, casualty reduction and antisocial road use especially in more rural areas.

Rural Crime

Tackling both crimes in rural areas and also crimes against wildlife.

Cyber Crime

Collaborative work with other forces in the North East region (Cleveland, Durham, Humberside, North Yorkshire, Northumbria and West Yorkshire) in relation to cyber enabled and cyber dependent crime.

DRAFT

Issues of disproportionality and inclusivity

Criminal justice system as a whole, stop and search, use of force, policing of protests and workforce issues of recruitment, training and retaining.

Operating Model of SYP

Increasing neighbourhood teams and police 'visibility' and engagement with the public and ensuring there is a workforce strategy and coherent workforce plan to match resources to demand.

Understanding what is working

Reducing crime and anti-social behaviour, improving services to victims and understanding and improving representation from our diverse communities within the workforce.

Partnership working, including work with local criminal justice agencies

Continued local work to support recovery of the criminal justice system from the impact of COVID19 and supporting preparations for the introduction of probation reforms in June 2021.

Resources

In order to tackle these areas of focus, I need to make wise investment decisions, including investments in technology, but also face real dilemmas.

For instance, I have welcomed the government's national 'Uplift' programme to increase police officers by 20,000 additional numbers by 2023. However, efficiencies and financial savings will have to be made in order to pay for it locally.

The Chancellor's announcement on the funding I will receive for policing and crime was for one-year only, and means I will have to ask the council tax payers of South Yorkshire to make up the shortfall. The consequences of not doing so will take the Force backwards, and may result in cuts in areas I really do not want to visit, e.g. reducing the number of PCSOs in our neighbourhoods.

Conclusion

South Yorkshire Police is in a strong position to move forward, build on the changes it has already made and continue to improve for the benefit of South Yorkshire's communities.

However, in order to ensure the Force continues to move towards being an outstanding force in all areas I will have to ask council tax payers to pay a little more in 2021/22 as part of the annual precept setting. This equates to around 20 pence per week for residents in Band A and B properties, which accounts for the majority of South Yorkshire households.

I realise this is at a time when local communities are suffering financial hardship due to the consequences of the Coronavirus pandemic but I also have to balance this against what the public tell me they want from their police force and ensure that we have the finances to provide this. During the consultation process for the setting of the precept over 67% of 2160 respondents were supportive of the maximum increase.

Overall, I want South Yorkshire to be a safe place to live, learn and work. I believe this can be done through focusing on the three priority areas within the Police and Crime Plan, whilst also achieving the right balance of resources to deliver the most efficient and effective policing and crime services.

DRAFT

This page is intentionally left blank

Partnership and Commissioning Budget 2021-22

1. Background

1.1. The OPCC strategic planning timetable 2021-22 set out the various points at which an input would be required from the Partnership & Commissioning Team to feed into the planning process. It was agreed that consultation discussions with the OPCC SLT would take place late October in order to shape recommendations for PCC decision in advance of the Planning and Efficiency Group 23 November 2020.

1.2. Keeping to this timeline enables the Police and Crime Commissioner (PCC) to make a timely decision on the Partnership and Commissioning budget for 2021-22 and to consider the financial settlement expected late December 20.

1.3. The Partnership & Commissioning team developed a timeline of activity (Appendix A) to develop a proposed budget for the PCC which considered existing contracts and commitments, consultation responses from key stakeholders and the public responses to the priorities survey.

2. Recommendations

2.1. The Partnership and Commissioning team will continue to explore opportunities to bid for additional funding when opportunities are identified.

2.2. The Partnership & Commissioning budget will be re-organised to create a Criminal Justice Fund, which will include a small unallocated amount to address in year priorities as identified and recommended to the PCC.

2.3. Consideration will be given to a longer term financial settlement for agreed funding recipients, subject to a three year comprehensive spending review.

2.4. Support will be continued funding for the Modern Slavery partnership for a further year during which more detailed work to benchmark against the arrangements in other Force will be carried out.

2.5. When the Ministry of Justice (MoJ) Victim Services Grant is announced the PCC will look to increase funding of Domestic Abuse support services in light of increased demand.

2.6. Items for which there is an ongoing funding commitment will continue to be funded.

If savings be required then the PCC will be invited to consider the amber and green rated prioritisation.

2.7. Review in 2021-22 the funding provided to ensure the SYP in-kind (officer) contribution is included in the funding model. To be done with support and involvement of SYP.

2.8. The Partnership & Commissioning team will continue to work with the relevant SYP subject lead to ensure that services to be recommissioned in year continue to support SYP needs, as supported by a Force ACC.

2.9. The Community Grant scheme budget will be set at £150,000, the maximum grant available will be reduced to £7,500.

2.10. To improve transparency and openness in year requests for funding will be considered by the Partnership & Commissioning team and brought to the OPCC Senior Leadership Team for a rounded discussion on the ask before a recommendation is made to the PCC for decision.

3. External Funding in 2020-21

3.1. The Partnership & Commissioning team is managing an additional £1.9m of external funding secured in 2020-21. This is set out in Appendix B with a brief summary of purpose of the funding. The team will continue to submit bids for external funding when opportunities are identified.

4. Methodology

4.1. In order to develop the budget proposal for the PCC, the activities as set out in the timeline mentioned previously were conducted.

4.2. Early October a letter was sent to all existing funding recipients informing them of the intention to consult on needs for next year. At the same time an email was sent to all District Commanders informing them of the letter, providing details of existing funding in their District and requesting a meeting with them to discuss any needs identified by them.

4.3. A simple consultation document (Appendix C) was shared with all existing recipients to capture views and needs for funding in the next financial year. Not all existing recipients completed the document, a completion rate of approximately 60% was achieved.

4.4. The intention being to allow OPCC staff to consider the information returned as part of the process for setting the 2021-22 budget. The responses received were viewed alongside the Force's Management Statement and Strategic Intelligence assessment as available on the intranet.

4.5. Further to the District Commander meetings the OPCC Chief Executive and Partnership & Commissioning manager met with the Force ACC to discuss the commissioning budget proposals to ensure the direction of the budget would contribute to Force needs.

4.6. In addition to the above consideration was given to the results of the OPCC priorities survey as well as ad-hoc feedback received by the OPCC Communications and Engagement Team in their dealings with members of the public. A list of the information considered as part of the report is available at Appendix D.

4.7. This piece of work forms part of the ‘analyse’ section of the commissioning cycle helping to ensure the Partnership & Commissioning team is following best practise. In completing the activity as part of the OPCC strategic planning timetable it is intended to enable early notification of funding to recipients once the chancellor’s funding announcement is made.

5. Information gathered/emerging themes

5.1. Consideration should be given to how the PCC is able to demonstrate his activity in the criminal justice landscape. Including how in-year opportunities could be supported given the changes in the probation landscape.

5.2. A number of funding recipients have indicated that a longer financial agreement would be helpful.

5.3. South Yorkshire Police (SYP) needs assessments identify cybercrime/cyber-enabled crime as an emerging priority. Public survey and SYP data identifies burglary as key area. These could be considered as part of the PCC’s community grants scheme and/or Community Safety Partnership activity addressing these things could be encouraged.

5.4. Modern slavery was seen as an important area to support SYP priorities and if possible the PCC continuing to support the South Yorkshire Modern Slavery partnership would be beneficial.

5.5. Evaluation of data/information since March demonstrates that referrals into Domestic Abuse services has increased. Additional financial support has been provided to organisations supporting victims of Domestic and/or Sexual Abuse thorough additional single-year funding secured from the MoJ. It is expected that this need for support will continue into 2021-22.

5.6. Funding for Safeguarding partnerships is a common issue with Forces, a NPCC vulnerability lead presentation supports the South Yorkshire position that equitable does not mean equal. The same presentation also states that the funding and its negotiation are for Chief Officers not OPCCs which in not how this works in South Yorkshire.

5.7. During 2020-21 a different approach to the allocation of funding to support contributions to statutory partnerships was developed. An increased funding pot was split, on a population basis, between each Local Authority area. A single funding allocation was then provided to each Local Authority to use to best support the partnerships in its area. This will be discussed again at the County Safeguarding Forum in December.

6. In year priority activity

6.1. During the year there are a number of strategic contracts to be re-commissioned due to our reaching the end of the available extension periods.

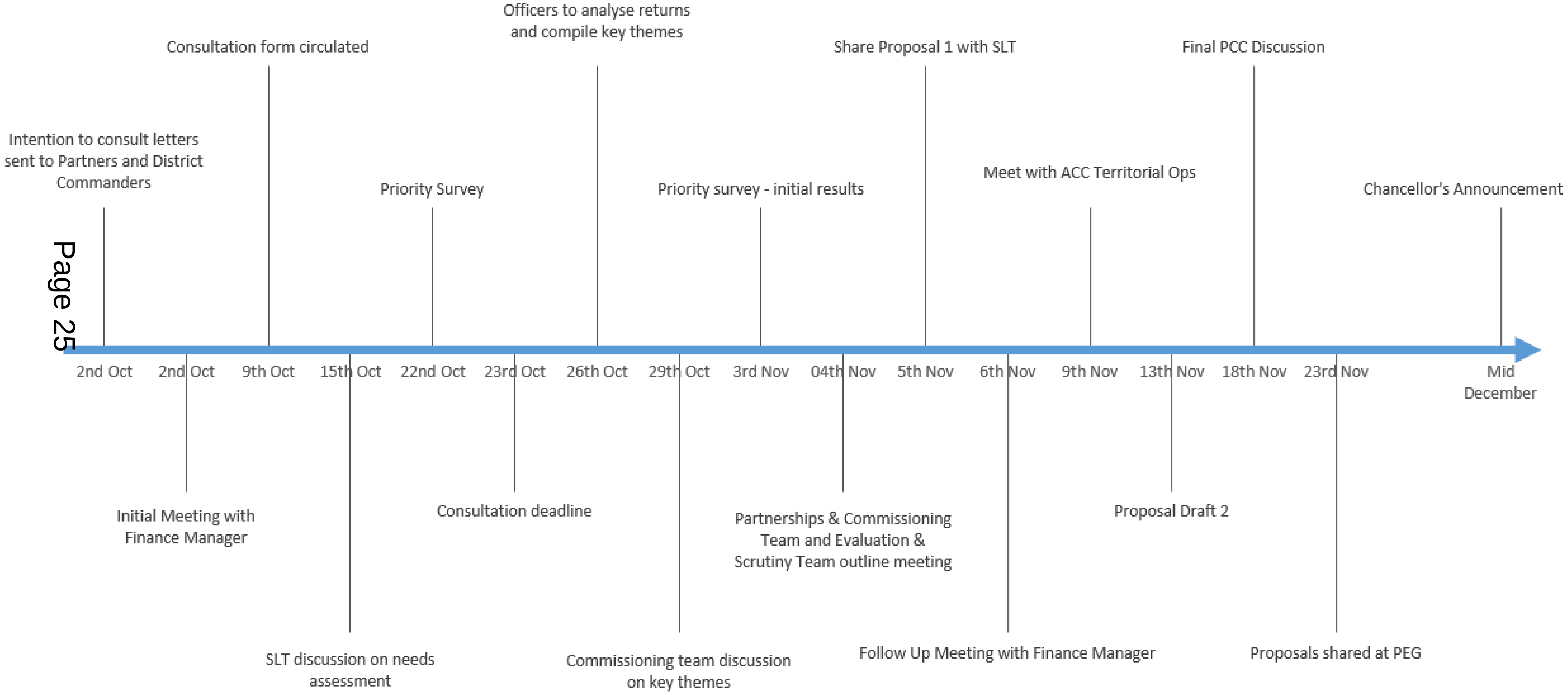
- Sexual Assault Referral Centre Services (Adults and Paediatric)
- Victim Support Service
- Independent Sexual Violence Advocate Service
- Restorative Justice service (inc the element co-commissioned with Community Rehabilitation Company)

Appendices

Appendix A - Commissioning Proposals Timeline
Appendix B – External Funding 2020-21
Appendix C – Needs Assessment Questions
Appendix D – Information Considered in this Assessment

Appendix A

Commissioning Proposals Timeline 2020



External Funding 2020-21

Funding Scheme	Provider	Amount	Aims and Objectives of Funding
Safer Streets Fund	Home Office	£549,964	Reduce acquisitive crime and burglary in Hexthorpe (an area disproportionately affected by these crimes)
Covid-19 Extraordinary Funding	MoJ	£475,253	Support for people affected by Domestic Abuse and Sexual Violence. Thi sfunding was released in grants to various local charities and organisations that work with victims to ensure organisations were still able to offer support despite the pandemic, subject to due dilligence checks.
Funding for additional ISVAs (over two years)	MoJ	£210,000	Funding to increase the capacity of the South Yorkshire ISVA service from October 2020; increasing ISVA numbers by 4 over a period of two year. (Year 1 - £75K, Year 2 - £135k)
Additional NCA ISVA funding	MoJ	£262,500	Additional funding to cover the cost of the separate ISVA service which currently supports historic victims of CSE as part of NCA Op. Stovewood
Sexual Abuse Services Support	NHS England	£11,277	Support to secure additional technology resources for services which support victims of sexual abuse during the Covid period
Domestic Abuse Perpetrator Intervention Fund	Home Office	£232,027	Funding bid for to predominently support activities in Sputh Yprkshire polices. Prevention, diversion, disruption and enforcement activity targeting the most prolific perpetrators of domestic abuse in South Yorkshire.
Covid-19 Extraordinary Funding (Phase 2)	MoJ	£214,219	Support for people affected by Domestic Abuse and Sexual Violence. Thi sfunding was released in grants to various local charities and organisations that work with victims to ensure organisations were still able to offer support despite the pandemic, subject to due dilligence checks.
	Total:	**£1,955,240**	

Appendix C

Needs Assessment Questions

- Name
- Service Provided
- District
- Details of other funding contributors incl funding amount
- Anticipated need/priorities for 21-22, in priority order
- How have the priorites been established?
- Any financial commitments which extend past 21-22 of which the PCC should be aware
- Is this a contracted service? If so when is the end date of the contract?
- Any identified service gaps which the PCC may wish to consider supporting?

Appendix D

Information and sources considered in this Assessment

- Consultation with all District Commanders
- Consultation with portfolio leads in SYP
- Consideration of the Strategic Intelligence Assessment produced by SYP
- Public consultation (via the survey created by the OPCC's Communications and Engagement Team)
- Consultation with OPCC Performance and Scrutiny Team and other colleagues
- Consultation with OPCC Senior Leadership Team
- Needs Assessment questionnaire responses completed by partner organisations
- National information from APCC
- Information from NPCC regarding Safeguarding Partnerships

Marie Carroll
Partnerships and Commissioning Manager.

Appendix E

RESERVES STRATEGY 2021/22

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. Additional information is also included in accordance with the requirements of the CIPFA financial management code of practice.

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

Background

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

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

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

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

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. 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 2021/22 and beyond. The Finance Settlement from Government in 2021/22 is for one year only and may be the last before the next Comprehensive 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, Covid-19, or offset unforeseen or unbudgeted expenditure, and
    - The nature of any historic events and potential liabilities arising from these events e.g. the legacy issues associated with the Hillsborough Disaster and cases of child sexual exploitation (CSE).

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

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

15. 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, if necessary, would be released to protect the level of general reserves as far as possible. The impact of this on the ability to fund potential future risks, will need to be assessed at the time.

Reserves Balances 2021/22

16. The balance as at 1 April 2020 for the total general and earmarked reserves was £55.8m. Of this, general reserves (£24.7m) were above 5% of the net revenue budget. The remaining reserves were all earmarked, £23.6m for revenue and £7.5m for capital.

17. It was forecast that £296k would be added to reserves in 20/21, however, the year end forecast at December 2020 predicts £6.4m will be taken from reserves at the outturn. The use of reserves is predominantly due Covid-19 and legacy expenditure.

The MTRS forecasts that the 2021/22 Force/ OPCC budget will balance. However, reducing this is a funding deficit of £5.8m 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 £5.8m contribution is forecast to be required from 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 2021/22 budget is in balance, but the MTRS requires the use of reserves to balance the budget from 2023/24 onwards. This is not a sustainable approach, as the prudent minimum reserve balance could only be sustained until 2025/26 and thus corrective action will be required to be taken.

The 2021/22 budget report states that balancing the medium term financial position to ensure recurrent financial balance will require some, or all, of the following:

- Achieving clarity through the Spending Review regarding the level of grant funding to increase 'Uplift' police officer numbers beyond 2021/22
- the Force's future integrated planning to balance demand and growth pressures and the need for efficiency savings,
- an improved deal on Legacy cost funding from the Home Office
- Precept flexibility.

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, a significant percentage of these costs have been met by the Home Office through Special Grant funding. These costs have increased and will continue to 2025/26, at this time the level of Home Office support through Special Grant funding is unconfirmed for 2021/22 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 2021/22 budget and MTRS.

- Civil Claims: To assist budget setting, SYP's Legal Services team provided forecasts for 2021/22 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 2021/22 budget and MTRS.

20. The expected costs of legacy issues in 2021/22 and future years have been updated. Between 2021/22 and 2025/26 costs are expected to total £133m, with £113m of Special Grant receivable under the current rules. This leaves a funding gap of £20m 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 Minister of State for Crime and Policing, 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 2021/22 as part of medium term planning and the monitoring of risks.

<u>Summary and Conclusion</u>

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 reserves over the medium term.

23. The future forecast of reserves is based on the 2021/22 MTRS, approved in February 2021. The strategy has assumed that in order to retain general reserves at 5%, or in a positive balance, all available earmarked reserves 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.

Sophie Abbott

Chief Finance Officer

Reserves Forecast 2021/22 to 2025/26

South Yorkshire Police & Crime Commissioner - Proposed Budget 2021/22

Reserves Forecast (Including Insurance Provision)

	31.3.21 £000	Forecast Movement	31.3.22 £000	Forecast Movement	31.3.23 £000	Forecast Movement	31.3.24 £000	Forecast Movement	31.3.25 £000	Forecast Movement	31.3.26 £000
General Fund	32,487	-599	31,888	3,504	35,392	-2,947	32,445	-6,326	26,119	-13,157	12,962
Earmarked reserves	5,604	-4,052	1,551	-1,551	0	0	0	0	0	0	0
Insurance reserves	11,358	0	11,358	0	11,358	0	11,358	0	11,358	0	11,358
Total Reserves:	**49,448**	**-4,651**	**44,797**	**1,953**	**46,750**	**-2,947**	**43,802**	**-6,326**	**37,476**	**-13,157**	**24,319**
5% min General Fund reserve	**13,924**		**14,801**		**15,097**		**15,384**		**15,694**		**16,151**

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

Earmarked Reserves

Home Office Category	Earmarked Reserve	Description/Use
Funding for planned expenditure over the period of the current medium term financial planning	PCC Innovation Reserve	This reserve is 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 reserve is no longer being utilised. It is proposed that the balance on the existing capital reserve be transferred to the police general fund at the end of the 2020/21 financial year.

	Revenue Grant Reserve	This reserve is for any external grant that has not been used in year, to allow it to be carried forward to fund future activity associated with the grant in 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 within approved limits.
As a general contingency/resource to meet other expenditure needs held in accordance with sound principles of good financial management	Insurance Reserve	This represents sums set aside to fund potential liabilities under the current insurance arrangements. This reserve is subject to periodic actuarial review.
	Redundancy Reserve	This reserve is set aside to cover any future redundancy liabilities in relation to the Local Criminal Justice Board's (LCJB) Business Manager. The LCJB is funded by the PCC and external partners.

Appendix F

South Yorkshire
Police and Crime Commissioner
Your Voice

CAPITAL STRATEGY 2021 TO 2026

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 2025/26.

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 2025/26, with the capital financing requirement and Minimum Revenue Provision policy over the same planning horizon.

2. Background

2.1 CIPFA's revised Prudential and Treasury Management Codes requires the PCC to prepare a capital strategy for 2021/22, 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 2025/26 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 Following the SYP assessment of need exercise an ambitious capital programme has been prepared from Asset Management Plans, Senior Command Team (SCT) decision papers and business cases that have been progressed through Strategic Boards, aligned to strategic priorities. The capital programme includes ongoing schemes and new schemes requiring approval. All new schemes require a capital scheme brief or business case that is generally progressed through Strategic Resourcing Board (SRB) prior to the scheme commencing. SRB brings scrutiny and challenge prior to the submission to SCT for approval and then on to the PCC for a final decision where this is greater than £250k.

3.4 Estates Strategy

The strategy is currently being refreshed in light of the Collaboration Board decision on Thursday 12 November for SYP and SYFRS to no longer progress with a shared estates service.

The current 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.

Estates includes the following significant property schemes:

- Doncaster Police Station & Custody Suite
- Rotherham Main Street
- Force Archive Facility
- New specialist crime services building (aligned to the workforce and uplift strategy)
- Ecclesfield
- Stock Condition work

3.5 IT Strategy

South Yorkshire Police has a joint IT Strategy and IT function shared with the Humberside Police Force. The ‘Information Services Shared Strategy 2021-2025’ has been created in response to a changing environment in which the forces are increasingly depending on efficient IT services to meet the needs of the public they serve within Humberside and South Yorkshire Policing areas.

The vision and mission conveyed in the strategy are as follows:

Vision: To be the “IT Shared Service” of choice, providing the ability for our businesses to be digitally enabled with the right tools to perform their roles and meet the business goals.

Mission: The “IT Shared Service” fulfils the IT needs of the Forces by providing proven, high-quality, cost effective services on a day-to-day basis with minimal disruption to the businesses.

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

- ESN
- Asset Refresh
- Uplift

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

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

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 2021/22 to 2025/26

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 estates strategy. Financing arrangements will be adjusted as/when disposals are completed and the disposal proceeds are received. More detailed information around the financing of the capital programme, and associated risks can be found in the Treasury Management Strategy.

Categories for Capital Programme	Forecast 2021/22 £000	Forecast 2022/23 £000	Forecast 2023/24 £000	Forecast 2024/25 £000	Forecast 2025/26 £000
Land & Buildings	16,089	22,746	8,447	909	600
Vehicles	3,135	2,917	2,049	2,399	2,917
IT	5,473	4,473	9,933	1,189	534
Other Equipment	1,796	1,001	441	651	152
Slippage adjustment	(8,831)	(4,492)	1,925	11,397	0
Total	**17,662**	**26,646**	**22,795**	**16,546**	**4,203**

Capital Budget	Approved budget 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000	Forecast 2023/24 £000	Forecast 2024/25 £000	Forecast 2025/26 £000
External Grants	867	287	287	287	287	287
Capital Receipts	0	0	0	0	0	0
Specific/Grants	0	0	0	0	0	0
Revenue Contribution	284	100	0	0	33	0
Contribution from Capital Reserves	0	0	0	0	0	0
Borrowing	12,954	17,412	26,404	22,523	16,233	3,916
Overall Total	**14,106**	**17,799**	**26,691**	**22,810**	**16,553**	**4,203**

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 PCC holds no other long term borrowing liability, historical debt with Rotherham Council being 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:

Capital Financing Requirement	2020/21 £000 Forecast	2021/22 £000 Forecast	2022/23 £000 Forecast	2023/24 £000 Forecast	2024/25 £000 Forecast	2025/26 £000 Forecast
Opening CFR	**64,994**	**76,959**	**93,405**	**118,633**	**139,657**	**154,117**
Capital Investment						
Property, Plant, Equipment	14,106	17,799	26,691	22,810	16,553	4,203
Source of Finance						
Capital Receipts	0	0	0	0	0	0
Govt Grants & Contributions	-1,152	-387	-287	-287	-320	-287
Sums set aside from revenue						
Minimum Revenue Provision	-989	-967	-1,176	-1,499	-1,773	-1,974
Closing CFR	**76,959**	**93,404**	**118,633**	**139,657**	**154,117**	**156,059**

7. Minimum Revenue Provision (MRP) Policy Statement

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

7.2 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 2021/22 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.

This page is intentionally left blank

TREASURY MANAGEMENT STRATEGY

REPORT OF CHIEF FINANCE OFFICER

PURPOSE OF REPORT

1. To allow the PCC to scrutinise the following documents in relation to 2021/22, and if satisfied, to approve the Treasury Management Strategy. The documents below have been updated to reflect the approved 2021/22 budget. It is intended to present the finalised document at the next JIAC meeting.

    - Treasury Management Policy Statement 2021/22 (Annex A)
    - Treasury Management Strategy Statement 2021/22 (Annex B)
    - Borrowing Strategy (Annex C)
    - Investment Strategy 2021/22 (Annex D)
    - Prudential Indicators 2021/22 (Annex E)
    - Minimum Revenue Provision (MRP) calculation policy 2021/22 (Annex F)
    - Treasury Management Practices 2021/22 (Annex G)
    - Detailed Economic Commentary (Annex H)

KEY INFORMATION

2. The proposed Treasury Management Policy Statement for 2021/22 is shown at Appendix A and covers the definition of treasury management activities and the key principles underpinning them. The definition includes the investment of surplus cash and the sourcing of external borrowing. The PCC's average daily cash surplus is made up of the amounts held in balances, reserves and provisions, usable capital receipts, unapplied capital grants and temporary cash flow surpluses.

3. The proposed treasury management strategy statement for 2021/22 is attached at Appendix B. This continues to focus on economy and stability, to achieve the lowest net interest rate costs recognising the risk management implications, and protect the annual revenue budget from short term fluctuations on interest rates.

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

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

6. Guidance from the Ministry of Housing, Communities and Local Government (MHCLG) requires the PCC to set an annual investment strategy. The proposed strategy is set out at Appendix D and has as its primary principle the security of investments.

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

7. The MHCLG has also issued statutory guidance setting out options for the way MRP may be calculated. Further background to the guidance and the policy is set out at Appendix E.

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

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

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

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

AAA	**AA+**	**AA**
Australia; Denmark; Germany; Luxembourg	Finland	Abu Dhabi (UAE)
Netherlands; Norway; Singapore; Sweden	Canada	France
Switzerland; USA		

It is recommended that the strategy be updated to enable investment with countries with ratings of AAA, AA+ and AA from two of the three rating agencies outlined above, provided they are also rated as green, or above, through Link Asset Services Treasury Solutions. Any investment outside of the UK must be agreed with the PCC beforehand.

11. There are no major changes to the content of the strategy this year, other than the following:

- Consideration of the utilisation of foreign investment (outlined in paragraph 10 above)

- The adoption of money market funds into the strategy as part of the review in maximising options, and returns in a low interest rate environment.

12. IFRS16 – Leasing implementation has been set back further by a year to 2022/23 due to pressures on staff from the pandemic. Therefore, any impact on existing assets/leases that have a material effect on the balance sheet will be conducted in 2021/22, the associated actions would be reflected accordingly, and flagged with necessary parties.

13. Affordability: Balanced Budget Requirement

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

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

Budget Assumptions

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

	Estimate 21/22 £000	**Estimate 22/23 £000**	**Estimate 23/24 £000**
Interest payable	1,636	1,969	2,370
Debt Management Expenses	6	9	8
Interest Receivable	(75)	(75)	(75)
Total	**1,567**	**1,903**	**2,303**

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

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

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

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

SUPPORTING DOCUMENTATION:

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

BACKGROUND PAPERS

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

Annex A

TREASURY MANAGEMENT POLICY STATEMENT

1. The PCC defines his treasury management activities as:

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

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

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

2.2 The PCC regards the successful identification, monitoring and control of risk to be the prime criterion by which the effectiveness of treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the PCC, and any financial instruments entered into to manage these risks.

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

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

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

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

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

Borrowing

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

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

Investments

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

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

5. Prudential Code

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

Annex B

TREASURY MANAGEMENT STRATEGY STATEMENT 2021/22

APPROVED ACTIVITIES OF TREASURY MANAGEMENT

Treasury Management encompasses the following:

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

FORMULATION OF TREASURY MANAGEMENT STRATEGY

This involves a consideration of the following:

a) General objectives when financing capital expenditure.

- To minimise the net revenue costs of debt.
- To optimise the use of borrowing, usable capital receipts, capital grants, operating leases and revenue resources.
- To comply with all statutory controls and professional guidelines relating to treasury management.

b) The prospects for interest rates and economic outlook. A detailed commentary from our treasury advisors can be found at Appendix H.

c) Current interest rates and forecasts are as follows. It must be noted however that the current economic climate is very uncertain, due to the Covid-19 virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit:

Link Group Interest Rate View

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

Table provided by Link Asset Services

.

Please note that these forecasts have been amended for the reduction in PWLB margins by 1.0% effective from 26.11.2020, the provisional settlement date.

Annex C

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 2021/22 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- If it if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.

- If it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

- Excess funds, as a result of taking borrowing in advance of need, will be invested with high quality counterparties as set out in the annual investment strategy.

Maturity Profile

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

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

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

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

Borrowing in advance of need

The PCC will not borrow more than or in advance of his needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the PCC can ensure the security of such funds. Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.This situation will be monitored however, if rescheduling was to be undertaken, it would be reported to the PCC formally.

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

Approved Sources of Long and Short term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
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	●	●

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

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

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

INVESTMENT STRATEGY 2021/22

BACKGROUND

The PCCs investment strategy 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

Investment strategy

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

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

A spread of maturity dates for investments will be maintained.

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

Investment returns expectations.

Economists view the overall balance of risks to economic growth in the UK as improving slightly, but it is subject to major uncertainty due to the Covid-19 virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.10%
- Q1 2022 0.10%
- Q1 2023 0.10%
- Q1 2024 0.10%

As can be seen from the forecasts above, rates are very low at the moment. The Bank of England announced in September 2020 that it was unlikely to introduce a negative Bank Rate within the next 6 -12 months, and there has been no subsequent update. Some deposit accounts however are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks.

Risk Management Policy

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

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

Minimum acceptable credit criteria

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

Other information

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

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

Creditworthiness Policy

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

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

- Yellow 5 years *
- Dark pink 5 years for Ultra-Short Dated Bond Funds or Enhanced money market funds(EMMFs) with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds or Enhanced money market funds (EMMFs) 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 weight to just one agency's ratings.

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

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

- if a downgrade results in the counterparty / investment scheme no longer meeting the PCC's minimum criteria, further use as a new investment will be withdrawn immediately.
- 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 the "Passport" website, provided 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 the decision making process. The following information summarises the credit worthiness policy:

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

	Colour (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

Credit and Counterparty Risk Management

The following will be used to manage counter party risk:

- **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 as follows:

	Minimum credit criteria / colour band	Maximum % of total investments/ £ limit per institution	Maximum maturity period
DMADF – UK Government	N/A	100%/No limit	6 months
UK Government gilts	UK sovereign rating	100%/No Limit	12 months
UK Government Treasury bills	UK sovereign rating	100%/No limit	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
Money market funds (CNAV/LVNAV or VNAV)	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

The above criteria is mainly unchanged from last year, with only the introduction of money market funds, to maximise options and returns in a low interest rate environment.

Accounting treatment of investments:

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

Country limits

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

AAA	AA+	AA
Australia; Denmark; Germany; Luxembourg	Finland	Abu Dhabi (UAE)
Netherlands; Norway; Singapore; Sweden	Canada	France
Switzerland; USA		

It is recommended that the strategy be updated to enable investment with countries with ratings of AAA, AA+ and AA from two of the three rating agencies outlined above, provided they are also rated as green, or above, through Link Asset Services Treasury Solutions. Any investment outside of the UK must be agreed with the PCC beforehand.

End of year investment report

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

Annex E

PRUDENTIAL INDICATORS

1. Capital Expenditure

Capital expenditure £'000	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Total	13,790	14,106	17,799	26,691	22,810

Other long-term liabilities - The above financing need excludes other long-term liabilities, such as leasing arrangements that already include borrowing instruments. The PCC no longer holds any other long term liabilities, the historical transferred debt being 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 strategy. Financing arrangements with be adjusted as/when disposals are completed and the disposal proceeds are received.

Financing of capital expenditure £'000	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Capital receipts	453	0	0	0	0
Capital grants	1,584	867	287	287	287
Capital reserves	0	0	0	0	0
Revenue	595	284	100	0	0
Net financing need for the year	11,158	12,954	17,412	26,404	22,523

2. The Capital Financing Requirement (CFR)

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

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	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Total CFR	64,994	76,959	93,405	118,633	139,657
Movement in CFR	10,145	11,965	16,445	25,229	21,024

Movement in the CFR represented by:

Net financing need for the year (above)	11,158	12,954	17,412	26,404	22,523
Less MRP/VRP and other financing movements	-1,013	-989	-967	-1,176	-1,499
Movement in CFR	10,145	11,965	16,445	25,229	21,024

3. Debt and the CFR

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

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

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

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

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the PCC should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years".

The PCC's Chief Finance Officer reports that the PCC has had no difficulty meeting this requirement in 2020/21, and does not envisage any difficulties in the future. The PCCs external debt is not currently above his borrowing need or CFR.

	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
External Debt					
a. PWLB debt at 1 April	39,870	37,070	35,570	51,482	76,386
Repayment of debt	-2,800	-1,500	-1,500	-1,500	-3,000
Forecast new debt	0	0	17,412	26,404	22,523
Total PWLB debt	**37,070**	**35,570**	**51,482**	**76,386**	**95,909**
b. Transferred debt 1 April	2,289	1,199	0	0	0
Repayment of transferred debt	-1,090	-1,199	0	0	0
Total Transferred debt	**1,199**	**0**	**0**	**0**	**0**
Gross debt at 31 March	38,269	35,570	51,482	76,386	95,909
The CFR	64,994	76,959	93,405	118,633	139,657
Under / (over) borrowing	**26,725**	**41,389**	**41,923**	**42,247**	**43,748**

4. Authorised Limit for External Debt

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

Authorised limit £'000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Debt	68,062	103,940	102,745	153,622
Other long term liabilities	2,290	0	0	0
Total	**70,352**	**103,940**	**102,745**	**153,622**

The limits separately identify borrowing and other long term liabilities such as finance leases. 'Other long term liabilities,' relate to the debt transferred from the South Yorkshire County Council's, administered by Rotherham. This debt will be fully repaid in 2020/21.

The PCC's Chief Finance Officer reports that these authorised limits are consistent with the PCC's current commitments, existing plans and the proposals in the 2021/22 budget report for capital expenditure and financing, and with the PCCs approved treasury management policy statement and practices.

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

The PCC is asked to note that the authorised limit determined for 2021/22 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

5. Operational Boundary for External Debt

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

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

The operational boundary represents a key management tool for in year monitoring by the PCC's Chief Finance Officer.

Operational boundary £'000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Debt	76,959	93,405	118,633	139,657
Other long term liabilities	1,199	0	0	0
Total	**78,158**	**93,405**	**118,633**	**139,657**

6. 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.

	2019/20 Actual %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %
Total	1.63	1.86	1.22	1.46	1.82

Impact of Capital Expenditure Proposals on Precept

The estimate of the incremental impact of capital investment decisions proposed in 2020/21 and the forecast for 2021/22 to 2022/23 over and above capital investment decisions that have previously been taken by the PCC is:

	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %
Incremental Impact	-0.0021	0.0006	0.0006	0.0007

7. 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 2021/22		
	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%

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

The PCC has adopted this code as outlined in section 2, paragraph 7 of Financial Regulations 2018.

9. Total Principal Sums invested for periods longer than 364 days

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

10. PCC and Officer Training

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

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

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

Annex F

MRP POLICY STATEMENT

1. BACKGROUND

The PCC is required to pay off an element of the accumulated capital spend each year (the CFR) through a revenue charge (minimum revenue provision - MRP), although he 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.

By way of explanation, under Regulations 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, and this method continues into 2021/22.

2. MRP POLICY STATEMENT 2021/22

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

Existing practice

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

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

Asset life method

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

Annex G

TREASURY MANAGEMENT PRACTICES

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

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

Annex H

DETAILED ECONOMIC COMMENTARY

- **UK.** The Bank of England's Monetary Policy Committee kept **Bank Rate** unchanged on 5th November. However, it revised its economic forecasts to take account of a second national lockdown from 5th November to 2nd December which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".
- Its forecasts appeared, at the time, to be rather optimistic in terms of three areas:
  - The economy would recover to reach its pre-pandemic level in Q1 2022
  - The Bank also expects there to be excess demand in the economy by Q4 2022.
  - CPI inflation is therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".
- Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.
- One key addition to **the Bank's forward guidance** in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase through to quarter 1 2024 but there could well be no increase during the next five years due to the slow rate of recovery of the economy and the need for the Government to see the burden of the elevated debt to GDP ratio falling significantly. **Inflation** is unlikely to pose a threat requiring increases in Bank Rate during this period as there is likely to be spare capacity in the economy for a considerable time. It is expected to briefly peak at around 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.
- However, the minutes did contain several references to **downside risks**. The MPC reiterated that the "recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside". It also said "the risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. That could involve some or all of the lockdown being extended beyond 2nd December, a temporary relaxation of restrictions over Christmas, a resumption of the lockdown in January and lots of regions being subject to Tier 3 restrictions when the lockdown ends. Hopefully, restrictions should progressively ease during the spring. It is only to be expected that some businesses that have barely survived the first lockdown, will fail to survive the second lockdown, especially those businesses that depend on a surge of business in the run up to Christmas each year. This will mean that there will be some level of further permanent loss of economic activity, although the extension of the furlough scheme to the end of 31st March will limit the degree of damage done.

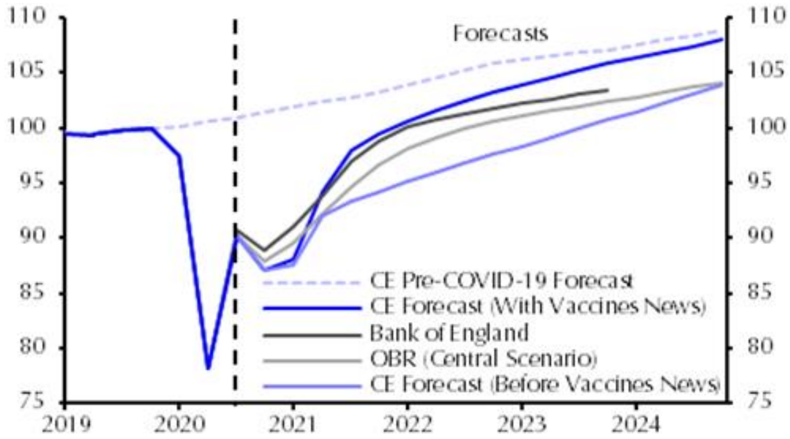
- As for **upside risks**, we have been waiting expectantly for news that various **COVID19 vaccines** would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, their phase three trials are still only two-thirds complete. More data needs to be collected to make sure there are no serious side effects. We don't know exactly how long immunity will last or whether it is effective across all age groups. The Pfizer vaccine specifically also has demanding cold storage requirements of minus 70C that might make it more difficult to roll out. However, the logistics of production and deployment can surely be worked out over the next few months.

- However, there has been even further encouraging news since then with another two vaccines announcing high success rates. Together, these three announcements have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels, which would help to bring the unemployment rate down. With the household saving rate currently being exceptionally high, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could begin to be eased, possibly in Q2 2021, once vulnerable people and front-line workers had been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% next year instead of 9%. But while this would reduce the need for more QE and/or negative interest rates, increases in Bank Rate would still remain some years away. There is also a potential question as to whether the relatively optimistic outlook of the Monetary Policy Report was swayed by making positive assumptions around effective vaccines being available soon. It should also be borne in mind that as effective vaccines will take time to administer, economic news could well get worse before it starts getting better.

- **Public borrowing** is now forecast by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

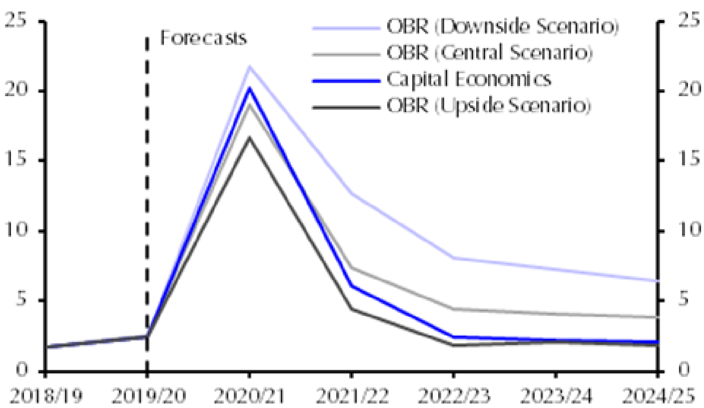
- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp but after a disappointing increase in GDP of only 2.1% in August, this left the economy still 9.2% smaller than in February; this suggested that the economic recovery was running out of steam after recovering 64% of its total fall during the crisis. The last three months of 2020 were originally expected to show zero growth due to the impact of widespread local lockdowns, consumers probably remaining cautious in spending, and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year also being a headwind. However, the second national lockdown starting on 5th November for one month is expected to depress GDP by 8% in November while the rebound in December is likely to be muted and vulnerable to the previously mentioned downside risks. It was expected that the second national lockdown would push back recovery of GDP to pre pandemic levels by six months and into sometime during 2023. However, the graph below shows what Capital Economics forecast will happen now that there is high confidence that successful vaccines will be widely administered in the UK in the first half of 2021; this would cause a much quicker recovery than in their previous forecasts.

Chart: Level of real GDP (Q4 2019 = 100)



This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to 2% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assume that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

Chart: Public Sector Net Borrowing (As a % of GDP)



- Capital Economics have not revised their forecasts for Bank Rate or gilt yields after this major revision of their forecasts for the speed of recovery of economic growth, as they are also forecasting that inflation is unlikely to be a significant threat and so gilt yields are unlikely to rise significantly from current levels.

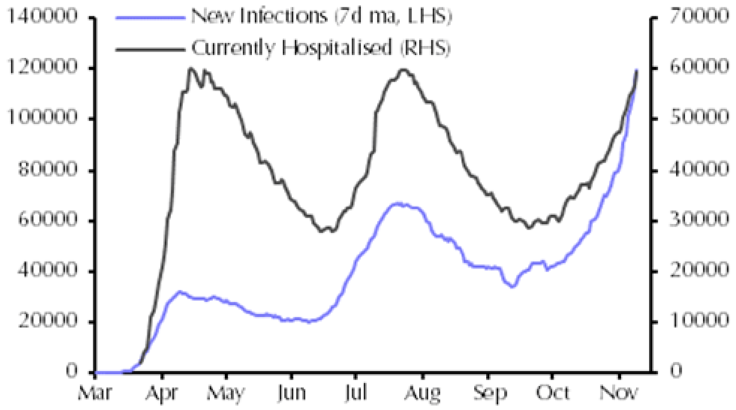
- There will still be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

- The **Financial Policy Committee** (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

US. The result of **the November elections** means that while the Democrats have gained the presidency and a majority in the House of Representatives, it looks as if the Republicans will retain their slim majority in the Senate. This means that the Democrats will not be able to do a massive fiscal stimulus, as they had been hoping to do after the elections, as they will have to get agreement from the Republicans. That would have resulted in another surge of debt issuance and could have put particular upward pressure on debt yields – which could then have also put upward pressure on gilt yields. On the other hand, equity prices leapt up on 9th November on the first news of a successful vaccine and have risen further during November as more vaccines announced successful results. This could cause a big shift in investor sentiment i.e. a swing to sell out of government debt to buy into equities which would normally be expected to cause debt prices to fall and yields to rise. However, the rise in yields has been quite muted so far and it is too early to say whether the Fed would feel it necessary to take action to suppress any further rise in debt yields. It is likely that the next two years, and possibly four years in the US, could be a political stalemate where neither party can do anything radical.

The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the **pandemic** with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a third wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the latest wave has been driven by a growing outbreak in the Midwest. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

COVID-19 New infections & hospitalisations



However, with the likelihood that highly effective vaccines are going to become progressively widely administered during 2021, this should mean that life will start to return to normal during quarter 2 of 2021. Consequently, there should be a sharp pick-up in growth during that quarter and a rapid return to the pre-pandemic level of growth by the end of the year.

After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal. The Fed's meeting on 5 November was unremarkable - but at a politically sensitive time around the elections.

EU. The economy was recovering well towards the end of Q2 and into Q3 after a sharp drop in GDP caused by the virus, (e.g. France 18.9%, Italy 17.6%). However, growth is likely to stagnate during Q4, and Q1 of 2021, as a second wave of the virus has affected many countries, and is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the worst affected countries. With inflation expected to be unlikely to get much above 1% over the next two years, the ECB has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use.

It is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support from governments. The current PEPP scheme of €1,350bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, the PEPP scheme is regarded as being a temporary measure during this crisis so it may need to be increased once the first PEPP runs out during early 2021. It could also decide to focus on using the Asset Purchase Programme to make more monthly purchases, rather than the PEPP scheme, and it does have other monetary policy options.

However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle during the closing and opening quarters of this year and next year respectively before it finally breaks through into strong growth in quarters 2 and 3. The ECB will now have to review whether more monetary support will be required to help recovery in the shorter term or to help individual countries more badly impacted by the pandemic.

China. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China’s economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies.

However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan. Japan’s success in containing the virus without imposing draconian restrictions on activity should enable a faster return to pre-virus levels of output than in many major economies. While the second wave of the virus has been abating, the economy has been continuing to recover at a reasonable pace from its earlier total contraction of 8.5% in GDP. However, there now appears to be the early stages of the start of a third wave. It has also been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. There has also been little progress on fundamental reform of the economy. The change of Prime Minister is not expected to result in any significant change in economic policy.

World growth. While Latin America and India have, until recently, been hotspots for virus infections, infection rates have begun to stabilise. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

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.

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

The graph below as at 10th November, shows how the 10 and 30 year gilt yields in the UK spiked up after the Pfizer vaccine announcement on the previous day, (though they have levelled off during late November at around the same elevated levels): -

INTEREST RATE FORECASTS

Brexit. The interest rate forecasts provided by Link in paragraph 3.3 are predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. However, as the differences between a Brexit deal and a no deal are not as big as they once were, the economic costs of a no deal have diminished. The bigger risk is that relations between the UK and the EU deteriorate to such an extent that both sides start to unravel the agreements already put in place. So what really matters now is not whether there is a deal or a no deal, but what type of no deal it could be.

The differences between a deal and a no deal were much greater immediately after the EU Referendum in June 2016, and also just before the original Brexit deadline of 29.3.19. That's partly because leaving the EU's Single Market and Customs Union makes this Brexit a relatively "hard" one. But it's mostly because a lot of arrangements have already been put in place. Indeed, since the Withdrawal Agreement laid down the terms of the break-up, both the UK and the EU have made substantial progress in granting financial services equivalence and the UK has replicated the bulk of the trade deals it had with non-EU countries via the EU. In a no deal in these circumstances (a "cooperative no deal"), GDP in 2021 as a whole may be only 1.0% lower than if there were a deal. In this situation, financial services equivalence would probably be granted during 2021 and, if necessary, the UK and the EU would probably rollover any temporary arrangements in the future.

The real risk is if the UK and the EU completely fall out. The UK could override part or all of the Withdrawal Agreement while the EU could respond by starting legal proceedings and few measures could be implemented to mitigate the disruption on 1.1.21. In such an "uncooperative no deal", GDP could be 2.5% lower in 2021 as a whole than if there was a deal. The acrimony would probably continue beyond 2021 too, which may lead to fewer agreements in the future and the expiry of any temporary measures.

Relative to the slump in GDP endured during the COVID crisis, any hit from a no deal would be small. But the pandemic does mean there is less scope for policy to respond. Even so, the Chancellor could loosen fiscal policy by about £10bn (0.5% of GDP) and target it at those sectors hit hardest. The Bank of England could also prop up demand, most likely through more gilt and corporate bond purchases rather than negative interest rates.

Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

So in summary there is not likely to be any change in Bank Rate in 20/21 – 21/22 due to whatever outcome there is from the trade negotiations and while there will probably be some movement in gilt yields / PWLB rates after the deadline date, there will probably be minimal enduring impact beyond the initial reaction.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic

developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

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

- **UK** - further national lockdowns or severe regional restrictions in major conurbations during 2021.
- **UK / EU trade negotiations** – if they were to cause significant economic disruption and downturn in the rate of growth.
- **UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- **UK - 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.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** 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 subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland 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. In November, Hungary and Poland threatened to veto the 7 year EU budget due to the inclusion of a rule of law requirement that poses major challenges to both countries. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

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

- **UK -** a significant rise in inflationary pressures. These could be caused by an uncooperative Brexit deal or by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population which leads to a resumption of normal life and a return to full economic activity across all sectors of the economy.
- 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 rapid series of increases in Bank Rate to stifle inflation.

- **Post-Brexit** – if a positive agreement was reached that removed the majority of threats of economic disruption between the EU and the UK.