South Yorkshire Police and Crime Commissioner
Your Voice

PUBLIC ACCOUNTABILITY BOARD

27 February 2023

Report of the Chief Finance Officer

Budget and Council Tax Precept for 2023/24

1. PURPOSE OF REPORT

1.1 The Police and Crime Commissioner (PCC) is required to approve the 2023/24 budget and issue the Council Tax precept by 1 March 2023.

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

2. RECOMMENDATION

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

(a) A budget requirement for 2023/24 of £317.6m, as set out in Section 7 of the report;
(b) A proposed annual increase in the policing element of the Council Tax (the precept) for 2023/24 of £15 for a Band D property taking it to £238.04 for the year. This is an increase of 6.73%;
(c) To note that most properties in South Yorkshire are in Bands A (57%) and B (17%) and C (12%) where the increase would be A 19p per week; B 22p, and C 26p;
(d) The Reserves Strategy as set out in ***Appendix C***;
(e) A Capital Strategy and Programme for 2023/24 of 19.6m as set out in ***Appendix D***;
(f) The Treasury Management Strategy and Minimum Revenue Provision policy statement (***Appendix E***) and the recommendations contained therein;
f) To note the Chief Finance Officer's statement on the robustness of estimates as set out in Section 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 2023/24 budget priorities and precept increase proposed in this report have been previously debated and agreed at the following:

Meeting of South Yorkshire Council Leaders	16 January 2023
Police and Crime Panel Budget Familiarisation meeting	31 January 2023
Police & Crime Panel	3 February 2023

3.3 The Police & Crime Panel (PCP) agreed to support the proposed precept for 2023/24 at its meeting on 4 February 2022. The full response from the PCP is attached at ***Appendix A***.

3.4 The outcomes of consultation exercises with the public regarding the policing priorities and policing precept are attached at ***Appendix B***. 2,870 residents have engaged and expressed their views. The responses were positive, with 57% (1,618) of respondents saying that they would be willing to pay £10 more per year, and 26% (740) confirming that they would be willing to accept a rise in line with inflation.

4. POLICE AND CRIME PLAN

4.1 This is the key document that sets out policing priorities and the content is currently being finalised. The plan is being re-issued to cover the period to the end of the PCC's term of office. While keeping the same overall priorities – Protecting Vulnerable People, Tackling Crime and Anti-Social Behaviour and Treating People Fairly – the Plan will also include some underlying principles:

- Put victims first
- Maintain public trust and confidence in the Police
- Demonstrate Value for Money
- Support sustainability

4.2 There will be some particular areas of focus under the priorities in the coming year, such as:

Many of the areas of focus have remained the same, with a strong focus on:

- Violence against Women and Girls (VAWG), including domestic abuse
- Child Sexual Exploitation
- the Neighbourhood Policing model and tackling neighbourhood crime
- Tackling drugs, OCGs and Serious violence, including through the VRU.

Other areas of the plan have also been strengthened further, including the focus on ethical behaviour.

Further details of the plan have been presented at item seven in this meeting.

5. 2023/24 NATIONAL FUNDING SETTLEMENT

5.1 The Home Office provisional funding settlement for 2023/24 announced additional funding of £523.4m, for policing areas, with 67% of this increase expected to come from local taxation, i.e. council tax (£349m). The settlement gives Police and Crime Commissioners (PCCs) in England flexibility to increase the policing element of council tax precept locally up to a limit of £15 on a Band D property. Government allocation calculations have assumed the maximum precept increase is applied in each area.

5.2 There is also a focus on efficiency from the Home Office and a productivity review is underway. Initial returns on efficiency and savings programmes were submitted to the Home Office in mid-January.

5.3 In South Yorkshire the core grant amounts to £228.6m with an additional £9.5m for pensions and ringfenced uplift grants (total £238.1m), the expectation being that a further £88m (37%) will be raised through council tax.

5.4 The provisional settlement was in line with the previous CSR announcement i.e., a 'flat cash' settlement adjusted for police uplift targets and changes to national insurance levies, the overall increase being 3.4%.

5.5 The funding settlement continues to be for one year, despite the three year comprehensive spending review (CSR) period. It is generally felt that the Home Office (and so policing) did as well as any department in the three-year Spending Review. But the Treasury has pushed back hard and wants to see empirically based results for spending decisions.

5.6 As mentioned above, the Home Office has assumed a £15 increase in precept. Based on the latest tax base estimates from the four Local Authorities in South Yorkshire (which are not yet finalised), after a £15 increase, the MTRS includes planned savings of £4.5m in 2023/24, with further savings of £26.2m being necessary to balance the budget throughout the MTRS period (some of which are still to be identified). Despite these savings, we will have to use £5.8m of reserves in 2023/24 to balance.

5.7 The pensions grant (£2.6m), council tax support and freeze grants continue at 'flat cash' rates. There is no allocation for capital investment, so this has to be funded locally. The ringfenced police uplift grant has been doubled to £6.9m to protect policing numbers, and the terms of this grant will be released with the final settlement in February.

5.8 The Violence Reduction Unit received a multi-year grant from the Home Office for the period 22/23 to 24/25. Whilst there was a significant increase in this funding (from £1.6m in 21/22 to £2.9m in 22/23, £2.2m in 23/24 and £2.1m in 24/25), there was an expectation of an increasing match funding contribution which is an additional call on resources (10% in 23/24, 15% in 24/25 and 20% in 25/26).

6. POLICE OFFICER NUMBERS

6.1 The government has committed to increase police officer numbers nationally by 20,000 before the next general election. The funding settlement is predicated on each police force playing its part. The targets set by for South Yorkshire are as follows:

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	178	720
Local uplift	50	73	79	18	220
National Uplift	30	121	151	202	504
Total in year	**234**	**412**	**400**	**398**	**1,444**

* includes officers that have to be provided to the Regional and Organised Crime Unit.

6.2 In addition to the above, in 2022/23 South Yorkshire has agreed to take a further eight officers, as additional funding was offered by the Home Office. A further seven have been agreed for 2023/24. The Force is on track to recruit those officers in line with the 3,039 Home Office target and may well exceed it.

6.3 It should be noted that all new officers in South Yorkshire must either have a degree already or gain one in training. Sheffield Hallam University has been contracted to teach these programmes *based on the full uplift of police numbers*.

7. 2023/24 BUDGET SUMMARY AND PRECEPT PROPOSAL

7.1 The PCC's proposal is 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 74% of properties are in Bands A or B (57% and 17% respectively), 33% of Band A households, and 16% of Band B households claim a reduction in council tax through 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:

	Proposed Precept 23/24	Weekly Increase	Properties in each band
	£	£	%
Band A	158.69	0.19	57.0
Band B	185.14	0.22	17.3
Band C	211.59	0.26	12.3
Band D	238.04	0.29	7.2
Band E	290.94	0.35	3.7
Band F	343.84	0.42	1.6
Band G	396.73	0.48	0.8
Band H	476.08	0.58	0.1
Total:			100.0

7.2 As part of our annual planning and budget-setting process, the Chief Constable has recently submitted her assessment of policing need in South Yorkshire. The key ambition remains the same as reported last year:

"*The key driver is around stability for the force with a key focus on getting the basics right rather than radical change - we want our foundations to be deep across all areas of our organisation. This doesn't mean that the force is limiting its vision or ambition, rather that it recognises that there has been substantial change over a short period and, add to this the largest change to officers numbers, the focus needs to be on consolidation and stability.*"

7.3 In order to achieve this, core priority areas are around response, protecting vulnerable people (PVP) and Neighbourhoods, and ensuring that there are the right resources in these areas to support delivery. Delivery of the police officer uplift programme also continues to be a key focus, and being on track to meet the Home Office target numbers..

7.4 South Yorkshire Police's (SYP's) approach will complement the work of partner organisations and service providers commissioned through the PCC's partnerships and commissioning budget.

[1] Based on band D equivalents

7.5 The proposed budget of £317.6m includes some investment to maintain the national uplift in police officer posts, as well as the local recruitment enabling us to reach 3,111 officers (based on the Home Office's headcount method).

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

Also included is investment into prioritised growth relating to essential core and uplift delivery, enhancement of the operating model and SYP's priorities with the key areas highlighted below:

Officer Uplift
The officer uplift is supported by a detailed and dynamic programme underpinned by demand, priority and need. SYP is looking to reinforce its core functions of response, neighbourhoods and Protecting Vulnerable People (PVP) first. It recognises the importance of the growth in specialist functions, but will sequence this later to safeguard its core functions. This ensures resilience in these areas and ensures that the neighbourhood service remains at full strength and able to deliver a proactive problem-solving service directly to the people of South Yorkshire.

SYP has invested in the required infrastructure to ensure that all the new officers are fully supported in their journey into the force – with continued investment in both accommodation, Central Assessment and Practice Education (CAPE) assessment and tutoring support. The uplift programme results in a significant number of officers that are young in service. These tutors will maintain and set the standards required for the officers of the future.

Savings Team
SYP recognises the need for savings and have invested in a multi-disciplinary savings team to work with senior management to identify and drive out savings to bridge the future gaps and ensure the budget is balanced over the CSR period.

Priority based Budgeting
Professional support for the Force to undertake and complete a full priority based budgeting exercise has been built in to the budget as part of the savings and efficiencies programme. The Force anticipates adopting a PBB approach in its future budget setting.

Projects
SYP has some key projects including Oracle Cloud, smarter ways of working and Connect Express, plus others such as Emergency Services Network (ESN). These are a mixture of national programmes, where SYP has limited control over the investments required and programmes that are key enablers that support further transformation and efficiency and all will be robustly challenged in terms of benefits against costs.

Estate
Investment is also being made to bring the estate up to an acceptable standard and addressing a backlog of compliance and maintenance issues, which have built up over many years, balanced against the agile working project.

SYP is striking the balance between some smart investments required to further develop SYP, support uplift, address changing risks and demands and be cognisant of the financial challenge.

7.6 **Savings**

Savings of £6.1m are included, but SYP will have to find recurrent savings of £19.8m to balance over the MTRS period. Although there are potential savings plans in place, these need further work and as such deficits are shown in the MTRS as use of reserves as they are still areas of risk. This would be the worst case scenario, the savings moving up the MTRS to reduce the budget in future years once plans are firmed up.

7.7 There are **Legacy costs** arising from three issues:

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

7.8 The best estimate at the moment is that the *total* legacy costs will be a further £85m by 2027/28, of which £15m will have to be borne by us. This assumes that the Home Secretary will continue to fund most of the costs through Special Grant funding. But this is discretionary, and one reason why good relations with the Home Office and Home Secretary have to be maintained. In 2023/24, the cost of our legacy issues is anticipated to be £5.8m. It should be noted however that the Home Office has recently announced its intention to revise special grant funding arrangements nationally, and therefore these estimates may change. Should there be an additional cost arising, the CFO wishes to reserve the right to approach the PCC for additional reserves funding to bridge the gap.

7.9 Another area of legacy costs arises from SYP's aim to publish all material it controls relating to the policing at the Orgreave coking plant in 1984, to help wider public understanding of the political and social history surrounding the miners' strikes in the 1980s. Although this is important work, and laudable for reasons of transparency and accountability of the police, it is difficult for many South Yorkshire residents to understand why such costs are still having to be paid for now, and through local taxation as well as central government funding.

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

2023/24 Budget & Medium Term Financial Plan

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
SY Police Force	324.3	325.3	330.7	340.3	351.1
SY PCC	2.0	2.1	2.1	2.2	2.3
Commissioning & P'ships	3.3	3.3	3.3	3.3	3.3
Capital Financing	1.5	3.3	4.3	5.4	6.3
Legacy Costs (net)	5.8	5.2	4.3	0.0	0.0
External Funding	-13.6	-13.6	-13.5	-12.5	-12.5
Total Expenditure	**323.3**	**325.6**	**331.2**	**338.7**	**350.4**
Funding	**-317.5**	**-322.0**	**-324.6**	**-327.4**	**-330.4**
Net (Surplus) or Deficit	**5.8**	**3.5**	**6.6**	**11.3**	**20.0**

Note small differences are due to roundings

7.11 The impact of this position means that the 2023/24 requires the use of £5.8m from reserves to balance the budget in 2023/24, and a combination of savings and use of reserves amounting to £47.3m throughout the CSR MTRS period. This is not a sustainable approach, as the prudent minimum reserve balance could only be sustained until 2026/27 (see ***Appendix C***).

7.12 Therefore, balancing the medium to longer term financial position to ensure recurrent financial balance will require following:

- Achieving clarity around the level of grant funding to support 'Uplift' police officer numbers beyond 2023/24,
- The conditions applied by the Home Office to maintaining those uplift numbers in 2023/24 and beyond,
- SYP's integrated planning to balance demand and growth pressures and the need for efficiency savings delivery throughout the MTRS period,
- The continuance of significant Legacy cost support from the Home Office,
- Clarity on any proposed funding formula changes,
- 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 2023/24 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 3 February.

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

8.1.1 Funding Formula Review

There is uncertainty within the Medium Term Resource Strategy (MTRS), as the government is currently undertaking a funding formula review. It is expected to be concluded by the end of the year, and transitional arrangements are likely to be put in place to smooth the changes. The PCC and CFO have been involved in the national shaping of the review with the Home Office and other stakeholders, through the PCCs role as vice chair of the APCC Strategic Finance Group. There will, however, be winners and losers in future years.

8.1.2 Uplift Grant

The uplift grant conditions have not yet been announced by the Home Office and will form part of the final settlement to be announced in February. It is anticipated that officer numbers will have to be maintained for the foreseeable future as the ring-fenced uplift grant has been doubled to £6.9m in 2023/24 to protect police officer numbers.

8.1.3 Taxbase and collection fund balances

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

8.1.4 Legacy Issues

As detailed above, the Home Office has recently announced its intention to revise special grant funding arrangements nationally, and therefore these estimates may change. Additionally, expenditure estimates have been prepared on the basis of current activity, the timing of which could be subject to change. Should there be an additional cost arising, the CFO wishes to reserve the right to approach the PCC for additional reserves funding to bridge the gap.

8.1.5 The Economy

There has been much volatility and uncertainty in the economy recently. General inflation is moving adversely at present and increasing interest rates make borrowing for capital investment more expensive. Until this position stabilises there will still be volatility in utilities, fuel, and other supply and services prices. Pay inflation is subject to negotiation, and currently the impact on the budget is uncertain.

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

8.1.6 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. This programme commenced in March 2020 and was paused in early July 2021. There were a number of issues relating to data quality and migration that resulted in progress being paused. An independent review of the programme occurred in October 2021 which resulted in a re-planning of the programme. Subsequently, additional funding was secured that would achieve on-premise ERP upgrades and tax compliance, providing a more stable environment with which to eventually migrate to the Oracle Cloud product. This involves fundamental changes to the configuration of the current ERP product across Finance, HR, Procurement, Payroll and Duties and remains ongoing at January 2022. There remains a risk in relation to accounting for cloud based products which could see a requirement to recognise these capital costs as revenue during 2023/24.

8.1.7 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.

In July 2020 the Government published its consultation setting out its proposals for addressing the discrimination that was found to be upheld. The Treasury published the outcomes of the consultation in February 2021, resulting in the 'Deferred Choice Underpin (DCU)' method being chosen. Eligible members would get, upon retiring after implementation, would get to choose between legacy and reform benefits. To supplement this, the Home Office and Treasury issued 'immediate detriment' guidance for those officers approaching retirement; this was not mandatory and Scheme Managers were free to choose whether to adhere or not. SYP chose not to. In late 2021 the guidance was effectively rescinded due to legal and taxation-complexity concerns.

The costs of the ruling are likely to be significant, however work is ongoing nationally with the Home Office around the implications of it. SYP has commenced resourcing for this demand and has also received some one-off government funding. This will be unlikely to cover all costs, and significant activity, via the NPCC, is still being managed in relation to future costs of remedy. Aside from Staffing, this would also cover software costs and any compensatory costs that fall due. In this regard, there are ongoing actions by Staff Associations relating to 'injury to feelings' where the potential for costs remains high.

9. RESERVES POSITION

9.1 The precept increase of £15 for the year leaves the proposed budget position for 2023/24 with a £5.8m deficit which will need to come from reserves, with larger deficits projected in the future.

9.2 Reserves can only be used once and, given the range of pressures and risks that SYP face, in particular, having to cover £15m of the funding of historic Legacy costs, it is necessary to hold additional reserves.

9.3 The Reserves Strategy has been refreshed and is shown at Appendix C. This reflects the reserves position over the life of the MTRS to 2027/28, maintaining a level of general reserve at or above 5% of the net revenue budget until the end of 2026/27. As detailed in 7.6 above, this is the worst case scenario, assuming that required savings are not delivered and that reserves are used to maintain services in the medium to long term (three to five year period).

9.4 It is recognised that reliance on reserves to balance annual budgets and medium term financial plans is not a sustainable position and is only referred to here as a means of providing cover for the forecast financial position based on the estimates and assumptions outlined above, before the impact of the other measures in section 7.12 are quantified and approved.

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

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

10. Conclusion

10.1 It is recommended that the budget be approved as presented, along with the increase in precept of £15.00 on a Band D property. This will support:

- The investment in the required infrastructure to ensure all officers are fully supported in their journey into the force with further planned investment in both accommodation, Central Assessment and Practice Education (CAPE) and tutoring support
- Maintenance of the operating model and investment in SYP priorities:
  - Maintaining the current levels of police officers, and
  - Improving the assets e.g. technology and estates

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

10.3 The outcomes of consultation exercises with the public regarding the policing priorities and policing precept are attached at ***Appendix B***. 2,870 residents have engaged and expressed their views. The responses were positive, with 57% (1,618) of respondents saying that they would be willing to pay £10 more per year, and 26% (740) confirming that they would be willing to accept a rise in line with inflation. Further information can be found in the appendix.

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

Attachments:

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

South Yorkshire
POLICE & CRIME PANEL

Our ref: JAGU/RH/AIS

Date: 6 February 2023

Sarah Norman
Chief Executive
Barnsley MBC
Church Street
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Dr A Billings
Police and Crime Commissioner
South Yorkshire Police & Crime Commissioner's Office
Carbrook House
5 Carbrook Hall Road
SHEFFIELD
S9 2EH

This Matter is being dealt with by: Andrew Shirt Tel: 01226 772207
Email: andrewshirt@barnsley.gov.uk

Dear Dr Billings

Proposed Council Tax Precept and Revenue Budget for 2023/24

At the meeting of the Police and Crime Panel held on Friday 3rd February 2023, 7 of the 8 Members present voted to support the policing element of the Council Tax precept for 2023/24.

The recommendation in the report asked the Police and Crime Panel to consider and support a proposed annual increase in the policing element of the Council Tax (the precept) for 2023/24 of £15.00 for a Band D property, which would be an increase of 6.73%. The Panel noted that most properties in South Yorkshire are in Bands A (57%) and B (17%) and C (12%) where the increase would be A 19p per week, B 22p per week, and C 26p per week.

A recorded vote was taken and recorded as follows:-

For accepting the proposed increase in the policing element of the Council Tax precept for 2023/24 – (7) Councillors Haleem, Davison, Garbutt, Knowles, Moyes, Ransome and Mr Carratt.

Against the proposed increase (0). Abstained (1) Councillor Baum-Dixon.

The proposal was approved.

RESOLVED – That Members of the Police and Crime:-

i) Voted to accept the proposed annual increase in the policing element of the Council Tax (the precept) for 2023/24 of £15.00 for a Band D property, which would be an increase of 6.73%.

ii) Noted that most properties in South Yorkshire are in Band A (57%) and B (17%) and C (12%) where the increase would be A 19p per week, B 22p per week and C 26p per week.

Yours sincerely

[redacted]

Cllr Rukhsana Haleem
Chair - South Yorkshire Police & Crime Panel

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Report of the Communications & Engagement Manager

CONSULTATION ON THE SETTING OF THE COUNCIL TAX PRECEPT 2023/24

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 2023/24.

2. BACKGROUND

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

2.2 The Government Spending Review and Autumn Statement, released in December 2022, announced that South Yorkshire Police will receive central grant funding of £238.1m in 2023/24, an overall increase of 3.4%. This comprises £228.6m core grant plus £9.5m for pensions and ringfenced uplift grants.

2.3 This central grant funding makes up 74% of the police budget. The other 26% (£88m) is expected to be funded by the council tax precept.

2.4 However, the £88m funded by the council tax precept will only be available if the PCC raises the precept by the full amount the government is allowing - £15pa based on a Band D property equivalent to a 6.73% rise for all households. If the precept is not raised by this amount, funding will be less.

2.5 Most households (around 75%) in South Yorkshire are Band A & B properties. The proposed 6.73% increase will equate to a rise precept rise of 19 pence per week (£10.00 p.a.) on a Band A property and 22 pence per week (£11.66 p.a.) on a Band B property.

3. INTRODUCTION

3.1 In a change to previous years the statutory consultation around the setting of the policing precept has been undertaken as one exercise rather than two separate consultations.

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

3.3 The consultation ran from 18 November 2022 until 5 January 2023 (seven weeks).

4. CONSULTATION & ENGAGEMENT METHODS AND FINDINGS

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

4.2 It was promoted at all of our face-to-face engagements and meetings during the consultation period, and we distributed contact cards with a QR code linking direct to the survey at all of these events and to many of our engagement contact groups and organisations. The QR code enabled the survey to be easily acce4ssed from smart phones. Hard copies were also taken o meetings and events for those people who could not access it electronically.

4.2 A total of 2,870 residents responded to the survey – which is considerably higher than last year. (In 2022 1,042 people responded to the precept survey and 791 responded to the policing priorities survey. In previous years both consultations averaged around 2,000 responses).

4.3 Of those responses there was a good spread across all four districts of South Yorkshire Sheffield (38% of respondents, Doncaster 26%, Rotherham 20% and Barnsley (16%). The majority of responses were from residents living in properties in bands A-E. The largest responses came from bands A (22% and band D 23%).

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

- 1,618 (57%) said they would be willing to pay £10 more per year.
- 740 (26%) said they would be willing to pay a rise in line with inflation
- 498 (17.44%) said they would not want to pay any more.

4.5 These results contrast to last year when 54% said they would not be willing to pay more.

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

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

4.7 The areas where the public placed least priority were:

- Crowd control at football matches
- Providing police enquiry desks
- Dealing with off-road bikes

4.8 A further piece of work to analyse the responses in more detail, including over 1,000 free text comments is currently taking place and the results will be used to help shape the Police and Crime Plan for the coming year.

5. RECOMMENDATION

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

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

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RESERVES STRATEGY 2023/24

Introduction

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

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

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

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

Background

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

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

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

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

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

8. There is also a requirement for three-year revenue forecasts across the public sector. This is achieved through the MTRS. Within the Comprehensive Spending Review, the PCC has 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 D*** for further details of the earmarked reserves held.

Reserves Strategy

12. The required level of reserves needs to be assessed against potential risks and uncertainty that the PCC and the Chief Constable face in 2023/24 and beyond. The Finance Settlement from Government in 2023/24 is for one year only despite the three year comprehensive spending review (CSR) period, which sets medium term police budgets and looks at how resources are allocated across police forces. Increases for maintenance police officer numbers towards the government's national 'Uplift' target of 20,000 are also allocated annually, and the specific grant requirements for 2023/24 are still awaited.

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 beyond the CSR period, or offset unforeseen or unbudgeted expenditure, and
    - The nature of any historic events and potential liabilities arising from these events e.g. the legacy issues associated with the Hillsborough Disaster and cases of child sexual exploitation (CSE).

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

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

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 2023/24

16. The balance as at 1 April 2022 for the total general and earmarked reserves was £67.7m. Of this, general reserves (£36.9m) were above 5% of the net revenue budget. The remaining reserves were all earmarked at £30.8m.

17. IN line with the latest budget monitoring projections, it is forecast that £5.2m will be added to the general reserves in 23/24, and that the earmarked reserves will be reduced by £4.8m, however there is still scope for this to change in the last quarter.

<u>Future Reserves Balances</u>

18. There are significant risks and uncertainties that could affect the level and adequacy of reserves in the future, without further efficiencies and savings generated by SYP beyond those assumed in the MTRS to support future budgets in the medium term.

<u>Impact of Legacy Costs</u>

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:

   - <u>Operation Stovewood</u>: 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 2023/24 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 2023/24 budget and MTRS.

   - <u>Civil Claims</u>: To assist budget setting, SYP's Legal Services team provided forecasts for 2023/24 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 2023/24 budget and MTRS, but may be subject to timing differences.

20. The expected costs of legacy issues in 2023/24 and future years have been updated. Between 2023/24 and 2027/28 costs are expected to total £121m, with £101m 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 three years for Hillsborough Civil Claims, and these are included in the earmarked reserves.

21. There is ongoing dialogue with the Home Office to demonstrate the affordability impact on South Yorkshire and also to encourage the Home Office to move away from annual grant funding applications, recognising that these are complex issues with a financial impact over the next five years. The Home Office continues to review its funding on special grant year by year, and 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 2023/24

as part of medium term planning and the monitoring of risks. Based on the ongoing Home Office support and dialogue, the strategy assumes that current levels of Home Office funding will continue.

Medium Term Resource Strategy

The 2023/24 budget is projecting a small shortfall (£65.6k) before legacy, and projects a surplus of £1.65m in 24/25, which will contribute to reserves. Beyond this, there is a requirement for significant use of reserves, as outlined in the table below.

2023/24 Budget & Medium Term Financial Plan

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
SY Police Force	324.3	325.3	330.7	340.3	351.1
SY PCC	2.0	2.1	2.1	2.2	2.3
Commissioning & P'ships	3.3	3.3	3.3	3.3	3.3
Capital Financing	1.5	3.3	4.3	5.4	6.3
Legacy Costs (net)	5.8	5.2	4.3	0.0	0.0
External Funding	-13.6	-13.6	-13.5	-12.5	-12.5
Total Expenditure	**323.3**	**325.6**	**331.2**	**338.7**	**350.4**
Funding	**-317.5**	**-322.0**	**-324.6**	**-327.4**	**-330.4**
Net (Surplus) or Deficit	**5.8**	**3.5**	**6.6**	**11.3**	**20.0**

Savings of £6.1m are included in the MTRS, but SYP will have to find recurrent savings of £19.8m to balance over the MTRS period (a total savings requirement of £47.3m over the life of the MTRS). Although there are potential savings plans in place, these need further work and as such deficits are shown in the MTRS as use of reserves as they are still areas of risk. This would be the worst case scenario, the savings moving up the MTRS to reduce the budget in future years once plans are firmed up.

The impact of this position means that 2023/24 requires the use of £5.8m from reserves to balance the budget in 2023/24, and a combination of savings and use of reserves amounting to £47.3m throughout the CSR MTRS period. This is not a sustainable approach, as the prudent minimum reserve balance could only be sustained until 2026/27 and is referred to in the CFO comment on sustainability of reserves in the main budget report.

The 2023/24 budget report states that balancing the medium to longer term financial position to ensure recurrent financial balance will require following:

- Achieving clarity around the level of grant funding to support ‘Uplift’ police officer numbers beyond 2023/24,
- The conditions applied by the Home Office to maintaining those uplift numbers in 2023/24 and beyond,
- SYP’s integrated planning to balance demand and growth pressures and the need for efficiency savings delivery throughout the MTRS period,
- The continuance of significant Legacy cost support from the Home Office,
- Clarity on any proposed funding formula changes,
- Precept flexibility.

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

Summary and Conclusion

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 2023/24 MTRS, proposed for approval in February 2023. 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 first to support the general reserve.

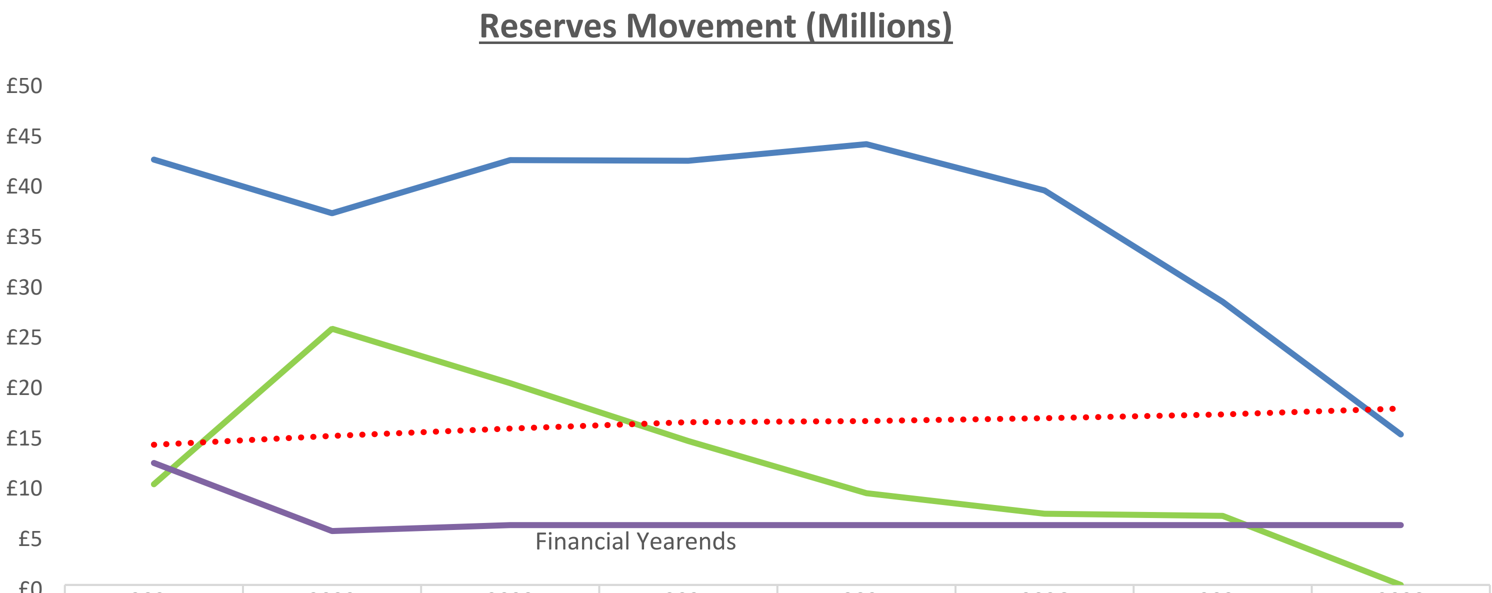
24. There will be an associated opportunity cost in terms of constraining investment in transformation to the estate or in technology that would support the successful operation of a more efficient operating model. Additionally, to maintain the general reserves to 5%, significant revenue savings delivery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

<u>Reserves Forecast 2023/24 to 2027/28.</u>



	2021	2022	2023	2024	2025	2026	2027	2028
General Reserve	£42.2	£36.9	£42.2	£42.1	£43.8	£39.2	£28.1	£14.9
Earmarked Reserves	£10.0	£25.4	£20.0	£14.3	£9.1	£7.1	£6.9	£-
Prudential Reserves Level	£13.9	£14.8	£15.5	£16.2	£16.3	£16.6	£16.9	£17.5
Insurance Reserve	£12.1	£5.4	£5.9	£5.9	£5.9	£5.9	£5.9	£5.9

South Yorkshire Police & Crime Commissioner - Proposed Budget 2023/24

Reserves Forecast (Including Insurance Provision)

	31.3.23 £m	Forecast Movement	31.3.24 £m	Forecast Movement	31.3.25 £m	Forecast Movement	31.3.26 £m	Forecast Movement	31.3.27 £m	Forecast Movement	31.3.28 £m
General Fund Reserve	£ 42.2	-£0.07	£ 42.1	£1.65	£ 43.8	-£4.60	£ 39.2	-£11.06	£ 28.1	-£13.17	£ 14.9
Earmarked Reserves	£ 20.0	-£5.75	£ 14.3	-£5.18	£ 9.1	-£2.04	£ 7.1	-£0.21	£ 6.9	-£6.86	£ -
Insurance Reserve	£ 5.9	£0.00	£ 5.9	£0.00	£ 5.9	£0.00	£ 5.9	£0.00	£ 5.9	£0.00	£ 5.9
Total Reserves	**£ 68.2**	**-£5.81**	**£62.37**	**-£3.53**	**£58.84**	**-£6.64**	**£52.20**	**-£11.27**	**£40.93**	**-£20.03**	**£ 20.9**
5% min General Fund Reserve	**£ 15.5**		**£ 16.2**		**£ 16.3**		**£ 16.6**		**£ 16.9**		**£ 17.5**

Note: Regular discussions take place with the Home Office and the Crime and Policing 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	Council Tax Support Reserve	This reserve is for any external grant from the Government in regards to Council Tax Support.
	Legacy Reserve	This reserve has been set aside from underspends on legacy costs to fund future potential liabilities in relation to Hillsborough and CSE.
	Devolved Reserve	As part of the devolved financial management arrangements, budget holders are allowed to carry forward underspends up to approved limits to fund expenditure in future years.
	Invest to Save Reserve	To assist with up front investment into projects that will deliver savings in the medium to long term.

Funding for specific expenditure beyond the current planning period	Revenue Grant Reserve	This reserve is for any external grant that has not been used in year, to allow it to be carried forward to fund future activity associated with the grant in forthcoming years.
	PCC Commissioning Reserve	This reserve is for any underspends on the PCC's Commissioning Budget. It will be carried forward to use in future years for both revenue and capital spend within approved limits. Also, used to underwrite commissioned services where the funding period does not cover the full contract length.
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.

CAPITAL STRATEGY

Updated for the budget 2023/4 -2027/28

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 2027/28.

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

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

1.4 This is a higher level strategy. It sets the framework for the more detailed Treasury Management Strategy, which covers investment and borrowing approaches. This strategy concludes with a summary of expected capital expenditure to 2027/28, with the capital financing requirement and Minimum Revenue Provision policy over the same planning horizon.

2. Background

2.1 CIPFA's revised Treasury Management and Prudential Codes requires the PCC to prepare a capital strategy for 2023/24, 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 2027/28 and beyond.

2.4 The proposed capital strategy is sustainable, affordable and prudent in the long term, and necessary for the operational stability and capability of the Force. A 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 the treasury management strategy. The outputs and impacts of capital expenditure plans are reflected in the prudential indicators within the Treasury Management Strategy, are an indicator of risk involved in capital investment.

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

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

3. The Capital Strategy

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

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

3.3 Following the SYP assessment of need exercise, 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. Further work has also been undertaken jointly to improve capital processes by the PCC's CFO, the Force CFO and the Director of Resources. Work in this area is continuing.

3.4 Estates Strategy

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

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

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

The Delivery Plan and Roadmap includes key workstreams such as uplift, Smarter Ways of Working, and a five year plan of works and projects, providing additional structure to programmes of work and the need for the financing of them and when. The Delivery Plan is formed from existing agreed programmes, from emerging requirements due to nationally changing priorities and from the annual business planning process. The programmes also include projects to support local policing initiatives, major schemes borne out of condition surveys and designed to improve resilience and efficiency in the estate for the future. Repurposing of buildings to reflect changing needs and other minor schemes of work, forming part of the day-to-day management of the estate alongside a robust programme of planned maintenance.

Major schemes in the current Delivery Plan include:

- Doncaster Police Station & Custody Suite
- Custody upgrade
- Ecclesfield
- Atlas Court
- CCTV and security work
- Force Archive facility

3.5 IT Strategy

South Yorkshire Police has a joint IT Service shared with Humberside Police Force. The 'Information 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. A new Target Operating Model (TOM) is being determined, aligned to the IT Strategy in order to drive the businesses forward over the coming years. A number of options are being considered about the best way of working in the future. The joint IT Strategy is designed to deliver a range of benefits some of which are listed below:

- Increased User Satisfaction
- Reduced Service Desk Demand
- Reduced Cost
- Decreased Incident Resolution Times
- Improved Project Delivery

The mission conveyed in the strategy is 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
- PC replacement
- Pronto
- Uplift

3.6 Fleet Strategy

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

4. Governance

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

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

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

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

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

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

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

5. Capital Expenditure 2023/24 to 2027/28

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

Categories for Capital Programme	Forecast 2023/24 £000	Forecast 2024/25 £000	Forecast 2025/26 £000	Forecast 2026/27 £000	Forecast 2027/28 £000
Land & Buildings	9,854	11,301	17,531	11,468	1,400
Vehicles	1,697	2,941	3,409	3,411	3,686
IT	9,339	4,194	3,216	8,787	2,108
Other Equipment	1,895	1,624	751	629	439
Slippage adjustment	(3,130)	909	(1,616)	204	8,098
Total	**19,656**	**20,968**	**23,291**	**24,499**	**15,731**

Capital Budget	Forecast 2023/24 £000	Forecast 2024/25 £000	Forecast 2025/26 £000	Forecast 2026/27 £000	Forecast 2027/28 £000
External Grants	0	0	0	0	0
Capital Receipts	300	300	300	300	300
Specific/Grants	901	0	0	0	0
Revenue Contribution	0	0	0	0	0
Contribution from Capital Reserves	0	0	0	0	0
Borrowing	18,455	20,668	22,991	24,199	15,431
Overall Total	**19,656**	**20,968**	**23,291**	**24,499**	**15,731**

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

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

6. Borrowing Need (the Capital Financing Requirement)

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

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

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

6.4 The CFR projections are set out below:

Capital Financing Requirement	**2022/23 £000 Forecast**	**2023/24 £000 Forecast**	**2024/25 £000 Forecast**	**2025/26 £000 Forecast**	**2026/27 £000 Forecast**	**2027/28 £000 Forecast**
Opening CFR	**88,294**	**101,973**	**119,501**	**139,165**	**161,041**	**183,979**
Capital Investment						
Property, Plant, Equipment	16,478	**19,656**	**20,968**	**23,291**	**24,499**	**15,731**
Source of Finance						
Capital Receipts	0	**(300)**	**(300)**	**(300)**	**(300)**	**(300)**
Govt Grants & Contributions	(1,854)	**(901)**	**0**	**0**	**0**	**0**
Sums set aside from revenue						
Minimum Revenue Provision	(946)	**(926)**	**(1,004)**	**(1,116)**	**(1,262)**	**(1,423)**
Closing CFR	**101,973**	**119,501**	**139,165**	**161,041**	**183,979**	**197,987**

Note small differences are due to roundings

7. Minimum Revenue Provision (MRP) Policy Statement

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

7.2 Department for Levelling Up, Housing and Communities (DLUHC) 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 The policy was last amended in 2019/20. A review of the options has been undertaken recently and it is recommended that the MRP Statement for 2023/24 does not change, and is as follows:

MRP POLICY STATEMENT 2023/24

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

Existing practice

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

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

Asset life method

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

TREASURY MANAGEMENT STRATEGY

REPORT OF CHIEF FINANCE OFFICER

PURPOSE OF REPORT

1. To allow the PCC to scrutinise the following documents in relation to 2023/24, and if satisfied, to approve the Treasury Management Strategy. The documents below have been updated to reflect the approved 2023/24 budget and the recent changes to the CIPFA Treasury Management and Prudential codes. It is intended to present the finalised document at the next Joint Independent Audit Committee (JIAC) meeting.

   - CIPFA Treasury Management Code and Prudential Code revised codes implications (**Annex A**)
   - Treasury Management Policy Statement 2023/24 (**Annex B**)
   - Treasury Management Strategy Statement 2023/24 (**Annex C**)
   - Borrowing Strategy (**Annex D**)
   - Investment Strategy 2023/24 (**Annex E**)
   - Prudential Indicators 2023/24 (**Annex F**)
   - Minimum Revenue Provision (MRP) calculation policy 2023/24 (**Annex G**)
   - Treasury Management Practices 2023/24 (**Annex H**)
   - Detailed Economic Commentary (**Annex I**)

KEY INFORMATION

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

3. There is a requirement in the new regulations that PCC's must not borrow to invest primarily for financial return. This was always implicit in the previous code but is now explicit in the revised code. The CFO confirms that we were already complying with this requirement.

4. The proposed Treasury Management Policy Statement for 2023/24 is shown at **Annex B** and covers the definition of treasury management activities and the key principles underpinning them. The definition includes the investment of surplus cash and the sourcing of external borrowing. The PCC's average daily cash surplus is made up of the amounts held in balances, reserves and provisions, usable capital receipts, unapplied capital grants and temporary cash flow surpluses.

5. The proposed treasury management strategy statement for 2023/24 is attached at **Annex C**. This continues to focus on economy and stability, to achieve the lowest net interest rate costs recognising the risk management implications, and protect the annual revenue budget from short term fluctuations on interest rates.

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

6. Guidance from The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly 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 **Annex E** and has as its primary principle the security of investments.

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

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

8. The DLUHC (formerly 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 **Annex G**.

9. 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.

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

11. 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 list as at 7.2.23) 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
1. Australia 2. Denmark 3. Germany 4. Netherlands 5. Norway 6. Singapore 7. Sweden 8. Switzerland	9. Canada 10. Finland 11. U.S.A.	12. Abu Dhabi (UAE) 13. France

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

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

- A tightening of the investment criteria in line with a review of counterparty risk (Annex E)
- The introduction of the liability benchmark outlined in Annex F
- An addition to Treasury Management Practice 1 (Risk Management) around environmental, social and governance issues.

13. IFRS16 – the implementation of new regulations on accounting for leases has been further deferred from 2022/23 to 2024/25. The implications are being worked thorough and will be reflected in next year's Treasury Management Strategy. There have been no other significant changes to the CIPFA Accounting Code of Practice that would impact in this area.

14. Affordability: Balanced Budget Requirement

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

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

Budget Assumptions

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

	Estimate 23/24 £000	Estimate 24/25 £000	Estimate 25/26 £000
Interest payable	1,428	2,571	3,435
Debt Management Expenses	6	7	8
Other Interest Paid	28	28	28
Short-Term Borrowing Fees	3	3	3
Interest Receivable	(787)	(205)	(135)
Total	**679**	**2,404**	**3,339**

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

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

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

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

Sophie Abbott
Chief Finance Officer.

SUPPORTING DOCUMENTATION:

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

BACKGROUND PAPERS

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

2021 REVISED CIPFA TREASURY CODE AND PRUDENTIAL CODE IMPLICATIONS

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

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

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

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

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

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

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

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

Treasury management

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

Service delivery

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

Commercial return

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

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

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

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

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

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

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

The PCC and JIAC will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 Treasury Management Strategy Statement.

Annex B

TREASURY MANAGEMENT POLICY STATEMENT

1. The PCC defines his treasury management activities as:

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

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

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

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

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

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

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

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

3.3 The contribution the treasury management function makes is critical, as the balance of debt and investment operations ensures liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the Police Fund Balance.

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

Borrowing

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

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

Investments

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

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

5. Prudential Code

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

TREASURY MANAGEMENT STRATEGY STATEMENT 2023/24.

APPROVED ACTIVITIES OF TREASURY MANAGEMENT

Treasury Management encompasses the following:

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

FORMULATION OF TREASURY MANAGEMENT STRATEGY

This involves a consideration of the following:

a. General objectives when financing capital expenditure.

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

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

c. Current interest rates and forecasts are as follows:

Link Group Interest Rate View

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

Table provided by Link Asset Services

Annex D

BORROWING STRATEGY 2023/24.

The PCC is currently maintaining an under-borrowed position. This means that the capital borrowing need (the CFR), has not been fully funded with loan debt as cash supporting the PCC's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the first half of 2023.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

1. If it if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
2. 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.
3. Excess funds, as a result of taking borrowing in advance of need, will be invested with high quality counterparties as set out in the annual investment strategy.

Maturity Profile

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

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

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

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

Borrowing in advance of need

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

Debt rescheduling

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

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

Approved Sources of Long and Short term Borrowing

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

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

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

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

Annex E

INVESTMENT STRATEGY 2023/24

BACKGROUND

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

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

The PCCs investment strategy has regard to the following:

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

Investment strategy

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

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

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

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

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

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

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

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

A spread of maturity dates for investments will be maintained.

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

Investment returns expectations.

The current economic forecast includes a forecast for Bank Rate to reach 4.5% in the second quarter of 2023. Economists are suggesting that budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	
2022/23 (remainder)	4.30%
2023/24	4.30%
2024/25	3.20%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

Risk Management Policy

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit and Counterparty Risk Management

The following will be used to manage counter party risk:

1. **Specified Investments**

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

2. **Non- Specified Investments**

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

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

	Minimum credit criteria / colour band	**Maximum % of total investments or maximum amount per institution**	**Maximum maturity period**
DMADF – UK Government	N/A	100%/No limit	6 months
UK Government gilts	UK sovereign rating	100%/No Limit	12 months
UK Government Treasury bills	UK sovereign rating	100%/No limit	6 months
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Money market funds (CNAV/LVNAV or VNAV)	AAA	100%	Liquid
Government liquidity funds	AAA	100%	Liquid
Local authorities	N/A	£30m (maximum £5m per Authority)	12 months

Term deposits with banks and building societies - £30m maximum with any one institution and £30m with any one banking group.	Blue Orange Red Green No Colour	£30m £30m £20m £10m Nil	12 months 12 months 6 months 100 days Not for use
Term deposits with other counterparties - £15m with any one institution and £30m with any one banking group.	Blue Orange Red Green No Colour	£15m £15m £15m £10m No Colour	12 months 12 months 6 months 100 days Not for use

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

Accounting treatment of investments:

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

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

Country limits

The UK is currently rated as AA- but is still an approved country for investments. However, there are other countries (see table below for the current list) which have higher sovereign ratings than the UK (based on the 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
3. Australia 4. Denmark 5. Germany 6. Netherlands 7. Norway 8. Singapore 9. Sweden 10. Switzerland	11. Canada 12. Finland 13. U.S.A.	14. Abu Dhabi (UAE) 15. France

The strategy enables 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 his investment activity as part of the Annual Treasury Report.

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2023/24 – 2025/26

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

2. **Capital Expenditure**

Capital Expenditure £'000	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Total	16,635	16,478	19,656	20,968	23,291

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

Financing of capital expenditure £'000	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Capital receipts	91	0	300	300	300
Capital grants	380	0	901	0	0
Capital reserves	0	0	0	0	0
Revenue	1379	1854	0	0	0
Net financing need for the year	**14,785**	**14,624**	**18,455**	**20,668**	**22,991**

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

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

The CFR includes any other long-term liabilities (e.g. leases). Whilst these increase the CFR, and therefore the PCC's borrowing requirement, these types of scheme include a borrowing facility so the PCC is not required to separately borrow for these schemes.

The PCC is asked to approve the CFR projections below:

£'000	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Total CFR	88,294	101,973	119,501	139,165	161,041
Movement in CFR	13,818	13,678	17,528	19,664	21,876

Movement in the CFR represented by:

Net financing need for the year (above)	14,785	14,624	18,455	20,668	22,991
Less MRP/VRP and other financing movements	-967	-946	-926	-1,004	-1,116
Movement in CFR	13,818	13,678	17,528	19,664	21,876

4. **Debt and the CFR**

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

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

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

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

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

The PCC's Chief Finance Officer reports that the PCC has had no difficulty so far meeting this requirement in 2022/23 and does not envisage any difficulties in the future. The PCCs external debt is not currently above his borrowing need or CFR.

	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
External Debt					
PWLB debt at 1 April	35,570	34,070	32,570	48,025	66,907
Repayment of debt	-1,500	-1,500	-3,000	-1,786	-800
Forecast new debt	0	0	18,455	20,668	22,991
Total PWLB debt	**34,070**	**32,570**	**48,025**	**66,907**	**89,099**
Gross debt at 31 March	34,070	32,570	48,025	66,907	89,099
The CFR	88,294	101,973	119,501	139,165	161,041
Under / (over) borrowing	**54,224**	**69,403**	**71,476**	**72,258**	**71,942**

5. **Liability Benchmark**

A new prudential indicator for 2023/24 is the Liability Benchmark. The PCC is required to estimate and measure the liability benchmark for the forthcoming financial year and the following two financial years, as a minimum, but preferably over the 50 year period to capture the profile of all existing debt.

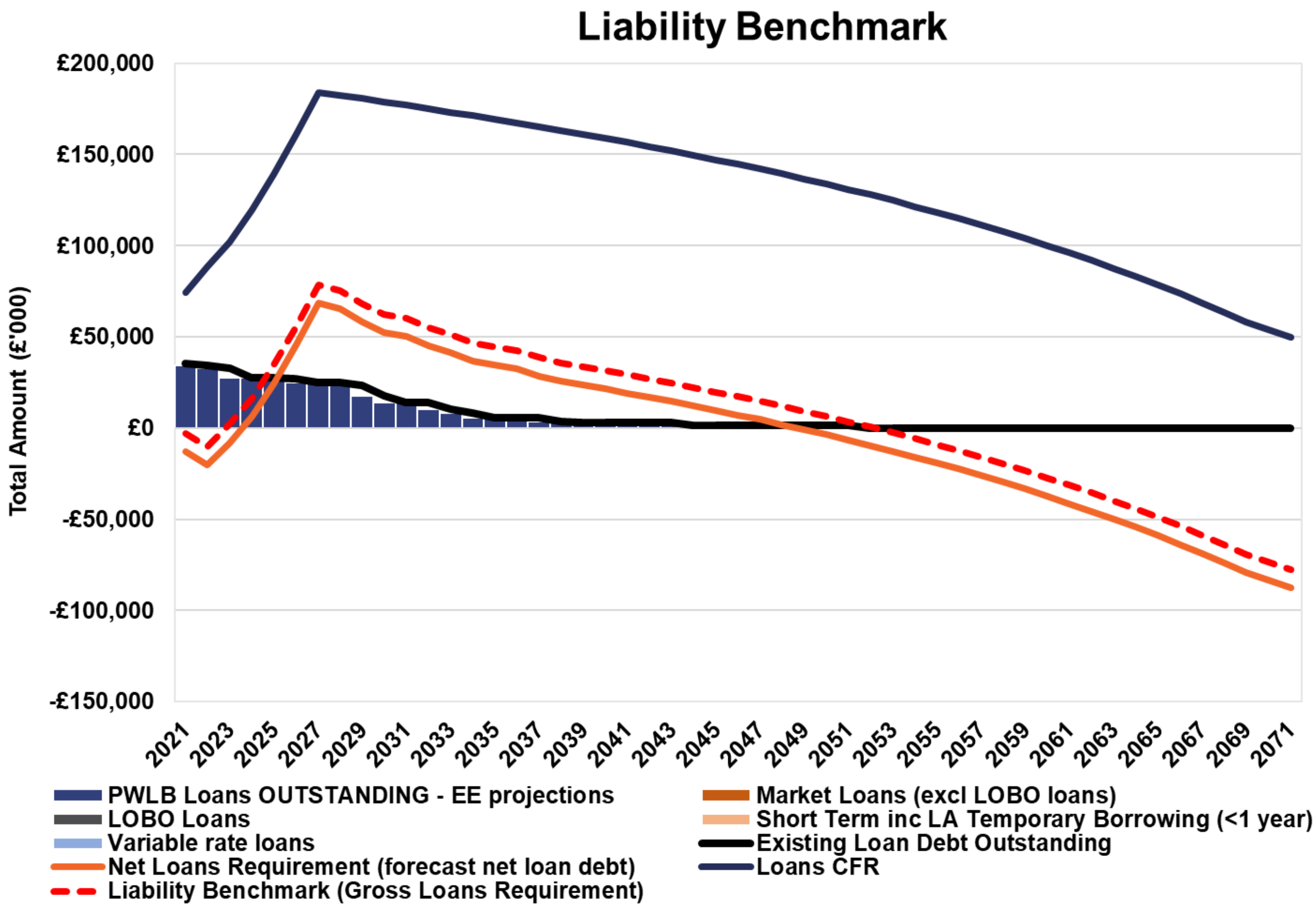
There are four components to the liability benchmark:

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

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

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

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



From the graph above the following can be seen:

- The loans CFR peaks at £184m in 2027 (based on approved schemes). This is the dark blue line.
- The PCC has residual loan debt of £24.8m at that point.
- The PCC initially has surplus cash of £48.3m at present, but this will be fully utilised bar £10m (the liquidity buffer) in maintaining an under-borrowing/internal borrowing position in the first instance, meaning cash of £38.3m can be used as internal borrowing. This information is encapsulated in the orange line, which is the Net Loans Requirement and ignores the liquidity buffer.
- The broken red line is the Liability Benchmark/Gross Loans Requirement and identifies a prudent further £10m of borrowing that can be added to the Net Loans Requirement = £78.4m

On this basis, the PCC will have an additional borrowing requirement of around £53.6m in 2027 (£78.4m borrowing at its peak, less £24.8m of existing external loans). This is the under Liability Benchmark figure of £58.5m.

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:

	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Authorised limit	**97,124**	**112,170**	**131,451**	**153,082**	**177,145**

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

The PCC's Chief Finance Officer reports that these authorised limits are consistent with the PCC's current commitments, existing plans and the proposals in the 2023/24 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 2023/24 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

Operational Boundary for External Debt

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

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

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

	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Operational boundary	**88,294**	**101,973**	**119,501**	**139,165**	**161,041**

It was initially envisioned that the PCC will be required to implement IFRS 16 in 2021/22 which is replacing the previous accounting standard applied for leases. The implementation of IFRS16 has not been re-scheduled to 2024/25. This standard removes the distinction between finance and operating leases which means that many of the PCC's existing leases will now be brought onto the balance sheet, potentially increasing the PCC's CFR and therefore increasing the operational boundary. The effect of this for the PCC is currently projected to be minimal, however this will be monitored on an ongoing basis.

Affordability prudential indicators

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

Ratio of financing costs to net revenue stream

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

	2021/22 Actual %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %
Total	4.42	4.28	5.23	5.95	6.42

Impact of Capital Expenditure Proposals on Precept

The estimate of the incremental impact of capital investment decisions proposed in 2023/24 and the forecast for future years, over and above capital investment decisions that have previously been taken by the PCC, is:

	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2025/26 Estimate %
Incremental Impact	-0.07	-0.11	-0.16	0.23	0.23

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 2023/24		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to 2 years	0%	75%
2 years to 5 years	0%	80%
5 years to 10 years	0%	80%
10 years and above	25%	100%

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

The PCC has adopted this code as outlined in section 2, paragraph 7 of Financial Regulations 2018. The CIPFA revised codes (2021) will be formally adopted from the 2023/24 financial year.

Total Principal Sums invested for periods longer than 364 days

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

PCC and Officer Training

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

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

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

Annex G

MRP POLICY STATEMENT

BACKGROUND

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

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

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

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

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

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

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

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

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

The PCC approved a change to the MRP policy, adopting the annuity method from 1.4.19, and it is recommended that this method continues. It should be noted that capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25, or in the year after the asset becomes operational.

MRP POLICY STATEMENT 2023/24

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

Existing practice

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

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

Asset life method

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

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 I

DETAILED ECONOMIC BACKGROUND

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	4.0%	2.5%	4.5%-4.75%
GDP	-0.3%q/q Q3 (1.9%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.9% Q4 Annualised
Inflation	10.5%y/y (Dec)	8.5%y/y (Jan)	6.5%y/y (Dec)
Unemployment Rate	3.7% (Nov)	6.6% (Dec)	3.4% (Jan)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will face some further upward pressures before dropping back slowly through 2023 to finish the year in the range of 4% - 5%.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

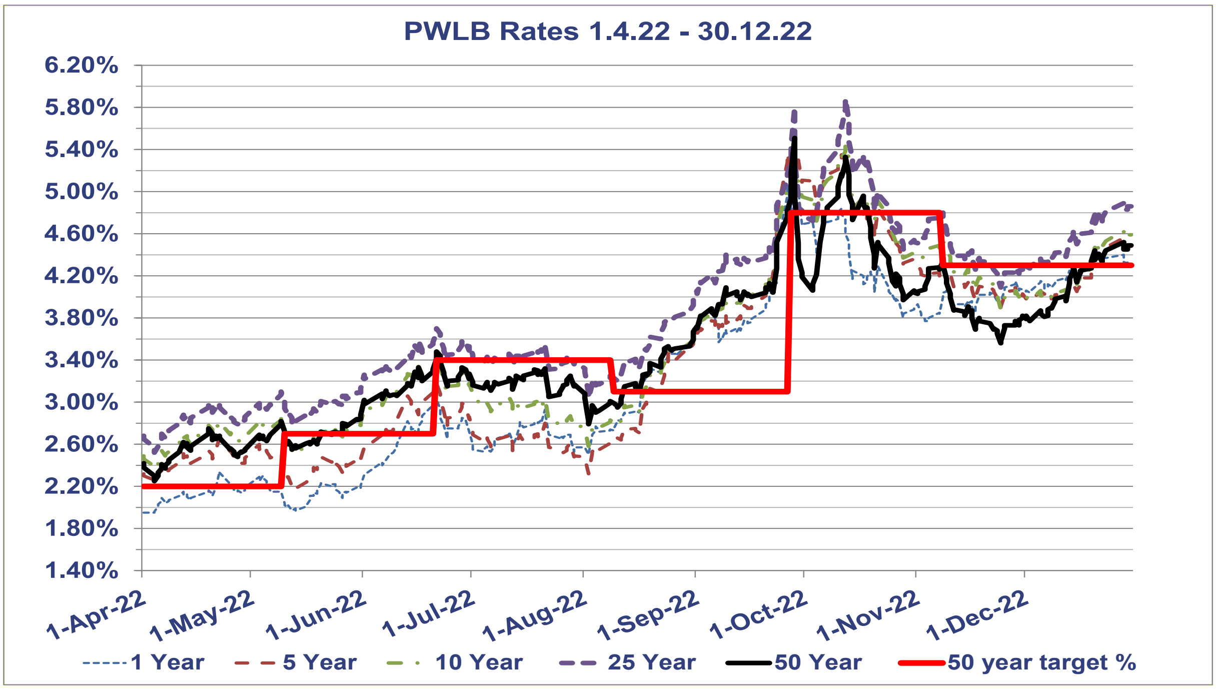
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Since then, rates rose to 3.5% in December and 4% in February and the market currently expects Bank Rate to hit 4.5% by June 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one, if not more, quarters of GDP contraction in 2023. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank. Indeed, their February Monetary Policy Report suggests five quarters of negative growth, albeit a shallow recession with GDP expected to shrink 0.5% in 2023 and 0.25% in 2024.

The £ has remained resilient of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.22. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first nine months of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to December 2022 below, has been followed by the whole curve shifting lower. PWLB rates at the front end of the curve are generally over 1.25% lower now whilst the 50 years is also over 1% lower.

HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.22 – 30.12.22

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.26%	3.41%	3.57%	3.85%	3.51%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

The S&P 500 and FTSE 100 have climbed in the early weeks of 2023, albeit the former finished 19% down in 2022 whilst the latter finished up 1%.

CENTRAL BANK CONCERNS – DECEMBER 2022 & FEBRUARY 2023

In December, the Fed decided to push up US rates by 0.5% to a range of 4.25% to 4.5%, whilst the MPC followed by raising Bank Rate from 3% to 3.5%, in line with market expectations. EZ rates have also increased to 2% with further tightening in the pipeline.

Having said that, the sentiment expressed in the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

At the start of February, US rates have further increased by 0.25% to a range of 4.5% - 4.75%, whilst UK Bank Rate increased 0.5% to 4%.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.25% - 4.5%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data and labour market have proven stronger than expected.

In addition, the Bank's central message that GDP will fall for five quarters starting with Q1 2023 may prove to be a little pessimistic. Will the excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).