OFFICE OF THE POLICE & CRIME COMMISSIONER FOR NORFOLK

REPORT TO THE NORFOLK POLICE AND CRIME PANEL 6 FEBRUARY 2018

PROPOSED PRECEPT FOR 2018/19

Executive Summary

This report outlines the budget and financial impact of the **three** 2018/19 precept options considered by the Police and Crime Commissioner following public consultation:

1. To freeze council tax
2. To increase council tax by 1.99% (£4.32 per annum at Band D)
3. To increase council tax by 5.5% (£11.97 per annum at Band D)

NB Increases of £12.00 or more would trigger a local referendum.

62% of households in Norfolk are below Band D

It also sets out the Capital Programme and the Medium Term Financial Plan (MTFP) 2018/19 to 2021/22.

A high level summary of the three options is set out in the tables below.

Option 1 – Freeze Council Tax

Council Tax Freeze	Budget 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
Total Funding (Grant + Precept)	(151,087)	(151,042)	(151,220)	(151,421)
Net Revenue Budget before changes and savings	153,600	157,114	160,636	164,224
REVENUE DEFICIT BEFORE KNOWN CHANGES	**2,512**	**6,073**	**9,416**	**12,803**
Known / Expected Changes	7,467	7,275	4,580	8,336
Planned use of reserves	(4,475)	(1,312)	1,895	(1,766)
REVENUE DEFICIT BEFORE SAVINGS	**5,505**	**12,035**	**15,890**	**19,373**
Planned Savings	(4,036)	(5,140)	(5,535)	(5,652)
Savings to be identified	(1,469)	(6,895)	(10,355)	(13,721)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

This option:

- would see reserves reduce from £15.6m as at 31 March 2018 to an estimated £10m as at 31 March 2022
- would require a further £13.7m of savings to be found by 2021/22 (on top of the £5.7m identified). Most of this would have to be from front-line operational and local policing. £6m of the savings required would be to protect reserves
- was not the planning assumption.

Over…

Option 2 – Increase Council Tax by 1.99%

1.99% Council Tax increase	Budget 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
Total Funding (Grant + Precept)	(152,338)	(153,607)	(155,167)	(156,817)
Net Revenue Budget before changes and savings	153,600	157,114	160,636	164,224
REVENUE DEFICIT BEFORE KNOWN CHANGES	**1,262**	**3,507**	**5,470**	**7,407**
Known / Expected Changes	7,467	7,275	4,580	8,336
Planned use of reserves	(4,475)	(1,312)	1,895	(1,766)
REVENUE DEFICIT BEFORE SAVINGS	**4,254**	**9,470**	**11,944**	**13,977**
Planned Savings	(4,036)	(5,140)	(5,535)	(5,652)
Savings to be identified	(218)	(4,330)	(6,409)	(8,325)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

This option would:

- see reserves reduce from £15.6m as at 31 March 2018 to an estimated £10m as at 31 March 2022
- require a further £8.3m of savings to be found by 2021/22 (on top of the £5.7m identified). £6m of the savings required would be to protect reserves.
- for 2018/19, result in no changes to the Local Policing Model (Norfolk 2020) announced in October 2017 but would inevitably mean further local policing reductions in 2019/20 and later years
- increase the Band D council tax by £4.32 (8p a week) to £221.49.

Option 3 – Increase Council Tax by 5.5%

5.5% Council Tax increase	Budget 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
Total Funding (Grant + Precept)	(154,555)	(158,080)	(159,788)	(161,589)
Net Revenue Budget before changes and savings	153,600	157,114	160,636	164,224
REVENUE DEFICIT BEFORE KNOWN CHANGES	**(955)**	**(966)**	**848**	**2,635**
Known / Expected Changes	7,466	7,274	4,579	8,335
Planned use of reserves	(3,475)	(2,188)	1,895	(1,766)
REVENUE DEFICIT BEFORE SAVINGS	**3,036**	**4,120**	**7,322**	**9,204**
Planned Savings	(3,036)	(4,120)	(4,495)	(4,591)
Savings to be identified	0	0	(2,827)	(4,613)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

This option would:

- see Reserves reduce from £15.6m as at 31 March 2018 to an estimated £10m as at 31 March 2022
- require a further £4.6m of savings to be found by 2021/22 (on top of the £4.6m identified). £2m of the savings required would be to protect reserves
- result in **an increase** to the Local Policing Model (Norfolk 2020) announced in October 2017
- increase the Band D council tax by £11.97 (23p a week) to £229.14.

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Recommendation

It is recommended that the Police and Crime Panel:

a) notes the Revenue Budget and Capital Programme for 2018/19, the Medium Term Financial Plan 2018/19 to 2021/22 and the funding and financial strategies

b) considers the three precept options for 2018/19 presented in the report

c) endorses the Police and Crime Commissioner's proposed precept for 2018/19, which the Panel will be notified of by 1 February 2018 (the statutory deadline).

1. Background

1.1 The decision on the level of the precept/council tax, the Revenue Budget and Capital Programme needs to be seen in the context of the funding envelope (the total of the precept and government grant), the pressures on the policing service (the changing nature of demand and price/pay increases), the PCC's priorities as set out in the Police and Crime Plan and the impact of the budget reductions necessary to balance the budget.

1.2 The decision must also be seen, not as a one-off decision in relation to next year, but as part of a strategy in relation to the changing demands on policing over the medium to long-term. The precept options and budget proposals within this report are made within the context of a rolling four year strategic and financial planning cycle. The figures contained within the strategy are based upon current information and the stated assumptions.

1.3 The PCC took up office in May 2016 and has been clear about his wish, for example, to improve the visibility of the police, equip officers with '21st century' technology and ensure that the Constabulary is finding savings through greater efficiency in order to offset some of the cost pressures (good stewardship). These priorities (1, 6 and 7 below) are particularly important in the context of the budget and financial plan.

1.4 Following a full consultation with the public, partners and local businesses the PCC's Police and Crime Plan was published in March 2017 and includes seven strategic aims:

1. Increase visible policing
2. Support rural communities
3. Improve road safety
4. Prevent offending and rehabilitate offenders
5. Support victims and reduce vulnerability
6. Deliver a modern and innovative service
7. Good stewardship of PCC finances.

1.5 The Commissioner has had iterative discussions on the budget proposals with the Chief Constable, particularly in reference to the Local Policing Model (Norfolk 2020). He has also considered views from the community, key stakeholders and public sector bodies. The results of the PCC's budget consultation are included in a report elsewhere on the agenda.

1.6 In accordance with the requirements of the Police and Crime Panel (Precepts and Chief Constable Appointments) Regulations 2012, a precept is proposed for 2018/19.

2. The Funding Context

2.1 2018/19 will be the 9th year of austerity. In 2010/11 Norfolk's Police Grant was £100.9m and in 2017/18 it was £77.9m (on a like for like basis, excluding Legacy Council Tax Grants). This is a reduction of 23% in cash and 37% in real terms.

2.2 In 2010/11 Band D Council tax was £191.16 in 2017/18 it is £217.17, an increase of 13.6% (1.9% average per annum).

2.3 The annual council tax increase has never been enough to balance the budget so savings have had to be found. To the end of 2016/17 Norfolk Constabulary has saved over £30m. In 2017/18 it will save another £3.8m and in the new MTFP period 2018/22 savings of between £9m and £14m are required depending on the Option proposed by the PCC. This will bring year on year savings to between £43m and £48m over 12 years (2010 to 2022).

Provisional Grant Settlement

2.4 Since the Autumn Statement 2015, the grant settlements for PCCs have been predicated on 'cash level' with PCCs required to increase the precept to make up for the reduction in government grant. Norfolk has been better than cash level over the last few years because of its growing tax base (more properties on which to levy council tax) and the good council tax collection rates of the District Councils resulting in collection fund surpluses (one-off) being shared with the precepting authorities.

2.5 Over the last 6 to 9 months the Association of Police and Crime Commissioners (APCC) and the National Police Chiefs' Council (NPCC) have submitted evidence to the Policing Minister of the financial costs of the pressures on the service. During this time a number of terrorist incidents have placed even more pressure on the service.

2.6 The PCC has lobbied and met with the Policing and Fire Service Minister and the Prime Minister to explain the financial pressures on Norfolk Police. The provisional grant settlement announcement was made on 19 December 2017 and in his letter to PCCs the Minister said *"…Your concerns have been heard and that is why we are proposing to increase investment in policing by up to £450m year on year in 2018/19."*

2.7 In reality, the £450m comprises £50m of new money (for counter terrorism), £130m of 'reallocations' and £270m if PCCs maximise precepts.

2.8 The Home Office will maintain grant at the 2017/18 cash level and permit PCCs to raise the council tax by up to 'a pound a month' i.e. £12 per annum.

2.9 The Settlement is not expected to be confirmed until early February 2018 but is unlikely to change. Further details are in the table below and in Appendix A.

	2017/18	**2018/19**	**Variance**	
	£000	**£000**	**£000**	**%**
Police Main Grant	77,888	77,888	0	0.00%
Legacy Council Tax Grants	9,305	9,305	0	0.00%
Total all Grants	**87,193**	**87,193**	**0**	**0.00%**

2.10 The Provisional Police Grant report also says that the *"Government intends to maintain the protection of a broadly flat police grant in 2019/20 and repeat the same flexibility of the precept, i.e. allowing PCCs to increase their Band D precept by a further up to £12 in 2019/20".*

2.11 This approach for 2019/20 is dependent on the police delivering *“clear and substantial progress against the agreed milestones on productivity and efficiency in 2018”.*

2.12 As the constabulary, and policing as a whole, remain committed to delivering efficiency, the MTFP includes the assumption that the grant is maintained at the same level for 2018/19 and 2019/20.

2.13 In essence, this is a two year settlement, but in any event the PCC will consult on the precept options for 2019/20 in December 2018. The financial planning assumptions for 2020/21 and beyond are difficult to judge. In the period between now and then a Spending Review and a new funding formula are expected and the financial prospects of the UK will depend on a successful Brexit. The assumption for year 3 and 4 of the MTFP is therefore prudent, with a return to a broadly ‘cash flat’ funding settlement.

Grant damping and the Police Funding Formula

2.14 The Home Office had been engaging with the police sector on changes to the police funding formula. However, due to changing government priorities (particularly Brexit), plans for amending the formula and for it to take effect for 2018/19 have been postponed until the next Spending Review.

2.15 As a result there were no changes to grant damping for 2018/19 and all PCCs’ core Home Office grant funding has been maintained at the same level as 2017/18.

Council Tax Income

2.16 District Councils calculate the number of dwellings on which council tax can be levied and estimate the collection rate. Variations between actual and estimated income accrue in the District Council collection funds. A surplus or deficit on the collection fund is allocated between the District Council, the County Council and the PCC in proportion to their share of the Band D council tax. In recent years there has tended to be an overall surplus on the collection fund. Districts have estimated the 2017/18 surplus attributable to the PCC will be £989k receivable in 2018/19.

2.17 The provisional Council Tax base figures provided by the District Councils show an increase of 1.9%. The final figures, which are then notified to the Government, will not be available until the end of January 2018.

2.18 62% of properties in Norfolk are in Bands A to C, i.e. below Band D.

3. Budget and Precept 2018/19 and the Medium Term Financial Plan (MTFP)

3.1 The budget and MTFP are constructed as follows:-

- The base 2017/18 budget (funding current activity) is rolled forward and repriced. The full year effect of any 2017/18 part year initiatives/change programmes is added. (See the line Deficit/Surplus before Known Changes in the tables in the Executive summary and on pages 9 and 10).
- Known/Expected Changes are then added. These include statutory changes (e.g. increases in employer’s national insurance or pension

contributions), service developments (other base budget inescapable pressures), capital financing costs (of the new capital programme) and finally any growth required as a result of the financial planning and scrutiny processes.

- Use of reserves is then considered. Typically they will be used to finance short-life capital assets (over and above the budget provision), temporary revenue costs and invest to save initiatives.
- This results in a sub total - Revenue Deficit Before Savings
- Finally the savings identified are included to balance the budget.

3.2 The operational backdrop to this is that the Constabulary continues to face significant service pressures due to the changing nature of crime. Whilst Norfolk remains a very safe county the Constabulary is dealing with continuing increases in reports of domestic abuse, rape and serious sexual offences, adult and child abuse and allegations of cyber enabled fraud. These are some of the most complex and demanding investigations the service has to undertake and they require a highly skilled workforce. As a result Norfolk Constabulary is facing some significant cost pressures which the Chief Constable believes have to be met if the threat is to be managed.

3.3 The police service continues to be the emergency service of the last resort. This is even more noticeable as funding for other public sector services is constrained, for example the ambulance service, and mental health services.

3.4 Government has lifted the public sector pay cap (historically 1%) and pay review bodies will be given instructions by the relative Secretary of State. Budgets will have to provide for the awards agreed. Inflation continues to be high at around 3%, (but is forecast to fall), and all of this means additional costs, in excess of £3m, in 2018/19.

3.5 To remain as efficient as possible, the Constabulary needs to continue to invest in and refresh technology that keeps the policing model fit-for-purpose and able to meet increasing demand and the changing nature of crime. This investment, initially charged to capital account, is significant and has ultimately to be funded from the revenue budget.

3.6 As a result of all of these pressures and despite the government grant being maintained at 2017/18 levels, the Constabulary is faced with needing to make £9m to £19m savings over the MTFP period depending on the level of precept being set.

3.7 The PCC's MTFP remains consistent. It provides for pay and price increases, growth to meet demand and service pressures, a significant change programme to make the required cost reductions, and use of reserves to support one off costs, including invest to save measures and the continued investment in modernising and improving technology.

3.8 The following financial planning assumptions have been used.

	Budget 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22
Police main grant change	0%	0%	-1%	-1%
Legacy council tax grants change	0%	0%	0%	0%
Council tax base change	1.9%	1.5%	1.5%	1.5%
Collection fund surplus	£989k	£0k	£0k	£0k
Pay awards - officers	2%	2%	2%	2%
Pay awards - staff	2%	2%	2%	2%
Non-pay inflation (average)	2.5%	2%	2%	2%

3.9 It should be noted that inflationary pressures could change over the period of the medium-term and the impact of these changes can be seen in the sensitivity analysis below.

3.10 The following table identifies potential changes to income/costs if the planning assumptions are changed.

	Variation	Variation
		£m
Main Government grants	1.0%	0.8
Legacy council tax grants	1.0%	0.1
Tax base increase	1.0%	0.6
Precept	1.0%	0.6
Pay awards officers (full year impact)	1.0%	0.8
Pay awards staff (full year impact)	1.0%	0.4
Non-pay inflation	1.0%	0.3

3.11 The Tables overleaf summarise the budget and forecasts for the three Options. Full details are in Appendices B(i), B(ii) and B(iii).

Option 1 – Freeze Council Tax

Council Tax Freeze	Budget 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
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Planned Savings	(4,036)	(5,140)	(5,535)	(5,652)
Savings to be identified	(1,469)	(6,895)	(10,355)	(13,721)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

This option:

- would see reserves reduce from £15.6m as at 31 March 2018 to an estimated £10m as at 31 March 2022
- would require a further £13.7m of savings to be found by 2021/22 (on top of the £5.7m identified). Most of this would be from front line operational and local policing. £6m of the savings required would be to protect reserves
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Option 2 – Increase Council Tax by 1.99%

1.99% Council Tax increase	Budget 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
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REVENUE DEFICIT BEFORE KNOWN CHANGES	**1,262**	**3,507**	**5,470**	**7,407**
Known / Expected Changes	5,828	7,275	4,580	8,336
Planned use of reserves	(2,835)	(1,312)	1,895	(1,766)
REVENUE DEFICIT BEFORE SAVINGS	**4,254**	**9,470**	**11,944**	**13,977**
Planned Savings	(4,036)	(5,140)	(5,535)	(5,652)
Savings to be identified	(218)	(4,330)	(6,409)	(8,325)
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	**0**	**0**	**0**	**0**

This option would:

- see reserves reduce by £5.6m from £15.6m as at 31 March 2018 to an estimated £10m as at 31 March 2022
- require a further £8.3m of savings to be found by 2021/22 (on top of the £4.6m identified). £6m of the savings required would be to protect reserves
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Option 3 – Increase Council Tax by 5.5%

5.5% Council Tax increase	Budget 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
Total Funding (Grant + Precept)	(154,555)	(158,080)	(159,788)	(161,589)
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This option would:

- see Reserves reduce from £15.6m as at 31 March 2018 to an estimated £10m as at 31 March 2022
- require a further £4.6m of savings to be found by 2021/22 (on top of the £5.7m identified). £2m of the savings required would be to protect reserves
- result in an **increase** to the Local Policing Model (Norfolk 2020) announced in October 2017
- increase the Band D council tax by £11.97 (23p a week) to £229.14.

3.12 Appendix C shows a high level analysis of the Net Budget and Forecasts for the 3 options.

3.13 Details of the precept to be levied on the collection authorities are set out in Appendices I - K (Options 1 - 3).

Change Programme and the Service and Financial Planning Process

3.14 Since 2010, in response to the challenging financial situation as set out in section 2, the Constabulary has been running a successful Change Programme that has delivered £30m (to 31 March 2017) since its inception. A significant portion of that programme has been delivered through collaboration with Suffolk Constabulary (see paragraph 4.1).

3.15 A joint (Norfolk and Suffolk) financial planning process has been on-going over recent months in accordance with an agreed timetable. An enhanced Service and Financial Planning process has been developed using Outcome Based Budgeting (OBB) principles, and an improved OBB modelling tool. This is the second year that OBB has been used, and improvements to the process have been seen this year.

3.16 OBB is a method for aligning budgets to demand, performance, outcomes and priorities. This approach analyses the activity spending of the entire Force, in terms of budgets, establishment, performance, demand and outcomes. This information is then lined up against the priorities and demands of the constabulary and PCC. This allows projects to be developed to target areas that can be made more efficient, as well as reviewing areas requiring more investment.

3.17 Heads of Department presented savings and investment proposals, and these were modelled against the impact on budgets and outcomes. These outcomes were then reviewed by a Joint Chief Officer Panel against the OBB principles and decisions made about limiting growth and increasing savings. A revised view of the Change Programme (see below) has also been developed.

3.18 These outputs were then presented to the Joint Chief Officer Team, and further refined after these sessions. Finally the outcomes of the process were presented to the PCC. The process concluded with agreement on Norfolk only budgets, the agreement of joint budgets, costs and savings arising from the process to be included in spending plans.

3.19 Given the levels of savings to be found it is clear that the Change Programme will need to be sustained over the medium-term so that savings can be driven out in a timely fashion to ensure budgets can be balanced and, equally importantly, reserves protected.

3.20 Alongside this activity the Norfolk 2020 Review of Local Policing has continued. Originally set up to develop proposals for swingeing reductions in the expectation of continued austerity, the Review has focussed on developing a local policing model fit for the future.

Norfolk Local Policing and the 2020 Review

3.21 In October 2017, the proposals for the future state of Norfolk's local policing were announced. Having undertaken the most extensive review in its history, Norfolk Constabulary will, over the next 24 months, undergo a comprehensive restructure to ensure it is fit for the future.

3.22 Within the County Policing Command (uniform policing), the most noteworthy change is the removal of the Police Community Support Officer (PCSO) role. There is no longer a significant difference in the cost to the organisation of a Police Constable or a PCSO. The additional powers and flexibility which the warranted role carries are deemed more necessary to fight today's crime and to exploit the technology now available.

3.23 Alongside this major change, at the 2% precept increase option (Option 2), there is a reduction in budget required of £2m. This means that the plans see a reduction in the number of uniform roles. 150 PCSO roles are not being replaced by 150 police officer roles, but by 97 roles, 81 police officers and 16 police staff. In addition, to make the necessary savings, the current Public Enquiry Office provision of 10 police stations is being reduced to 3. In all affected stations, regular (weekly or bi-weekly) 2 hour engagement surgeries will be held where members of the public can attend for immediate contact with a local police officer.

3.24 For uniform policing, the challenge remains increasing visibility with reducing resources. The PCC's strategic aim, in line with the recent public consultation, is to increase visibility. The challenge will be to provide more visible time from fewer resources, an aim to be achieved through the imminent arrival of mobile working, including body worn video and drones, a new method of patrolling and a greater emphasis on proactive policing, tackling crime before it occurs.

3.25 The demands on Norfolk Constabulary continue. This year has seen 366,000 calls for service (an increase of 3%), 608 operations (+35%), and a continuation in the shift in the types of crime committed.

3.26 The Norfolk 2020 proposals also fundamentally change the safeguarding and investigations structures. The Constabulary will develop two state of the art premises, one in Swaffham and one in Broadland, which will host the specialist and detective resources to investigate the more complex and harmful crimes. This will improve the service to victims as well as the quality of investigations. Furthermore, by moving to two sites, the Constabulary avoids an additional cost of £1m year on year for additional detective resource to enable the current structures to continue effectively.

3.27 Norfolk, as with most Forces, has seen major increases in serious sexual offences (20%)*, drugs supply offences (10%)* and serious violence (48%)*. The skills and infrastructure required to investigate such crimes as child abuse, rape and on-line fraud is notably different and more complex. These investigations also take longer than those for typical volume crimes.
* increase in total crimes for the annual period ending August 2017 compared with the previous year.

3.28 As this restructure is so significant, there will be a period of transition from the current state to the future model. The organisation is acutely aware of the impact on its staff in terms of colleagues being at risk of redundancy. As always, the Constabulary will minimise redundancy through redeployment opportunities. Affected members of staff are being encouraged and supported to become police officers, communication officers within the Contact and Control room or to take other civilian roles.

3.29 In spite of the reductions in funding available to Local Policing, the review has provided an evidence base such that Norfolk Constabulary is confident the new policing model will continue to deliver an excellent policing service to the communities of Norfolk. If further funding is made available through a precept rise, the Constabulary will be able to enhance visibility through the additional officers this would provide and further exploit the new roles and tactics which have been successfully piloted and developed. For example, if the PCC proposes Option 3 it will be possible to increase Safer Schools, Neighbourhood Policing and proactive resource (Moonshot) by another 23 front-line posts (17 police officers and 6 police staff).

Robustness of the Budget

3.30 The integrated financial planning model provides the high-level financial data that is used to generate the annual revenue and capital budgets, all of which are reconciled to control totals.

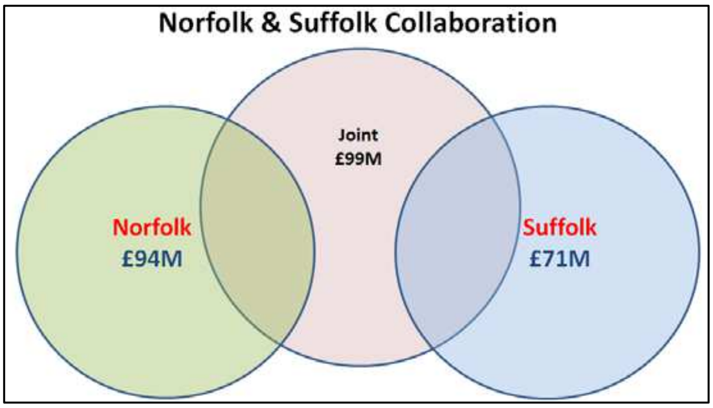
3.31 The comprehensive Service and Financial Planning process has resulted in the development of the various savings proposals and programmes. This has involved Chief Officers, Finance and the Programme Management Office (PMO) from both Norfolk and Suffolk Constabularies, maintaining financial clarity and consistency in financial plans.

3.32 Whilst there are always risks to delivering savings, controls will be maintained to ensure that the budgeted levels of savings are achieved as a minimum. Identified savings will be removed from budgets prior to allocation at the start of the financial year.

4. Collaboration and the Change Programme

4.1 Norfolk and Suffolk constabularies have been collaborating for close to a decade. During that period, a large number of business cases have been implemented and total savings have been found from collaboration of £34.5m (£17.4m for Norfolk and £17.1m for Suffolk).

4.2 The “joint” services budget is now over 1/3rd of the combined budget of both forces and stands at nearly £100m.



[2017/18 Budget]

4.3 As part of the Service and Financial Planning process for 2018/19 to 2021/22, savings of £3.7m in 2018/19 have been identified from the collaborative units (Norfolk’s share is £2.0m rising to £3.5m by 2021/22). These have been assessed in terms of risks and impact on outcomes using the improved Strategic Assessment Outcome Based Budgeting (OBB) model that uses OBB principles. Detailed business cases will now be prepared to realise these savings during 2018/19 and 2019/20.

4.4 As part of this process other areas have been identified and scoped to be developed into detailed business cases in the latter years of the plan (2020/21; 2021/22).

4.5 The forecast phasing for realising the savings is set out in Appendix B (iii).

Regional Collaboration

4.6 The PCCs and Chief Constables (CC) for the 6 police areas in the East of England together with the CC and PCC for Kent have confirmed their unanimous support for a ‘Seven Force Strategic Collaboration Programme’. The costs of the work are being shared by the 7 Forces. Many streams of work are being pursued and work is focussing on getting the 7 Forces to ‘converge’ their processes. This will enable efficiencies to be driven out and 7 Force contracts to be let (for identical products/services). In the longer term every function, with the exception of local policing, could be scoped for collaborative working.

4.7 A regional Head of Strategic Procurement has now been recruited and work has now commenced on developing a regional contracts “pipeline” (trying to ensure that all 7 forces go out to tender at the same time for the same goods and services). A business case is also being developed for a regional commercial procurement team.

4.8 It has not been possible to include any 7 Force savings in this MTFP at this stage, but the work programme is fully resourced and expected to deliver in the latter years of the MTFP.

5. Capital Programme and Financing 2018/22

5.1 The capital programme is a key element of strategic and financial planning. As highlighted last year, due to funding constraints, the impact of capital spending, particularly the investment in “short-life” assets, has a significant impact on the revenue budget.

5.2 The revenue impact for long-term estates assets is spread over the years through the Minimum Revenue Provision (MRP) mechanism. Norfolk has previously used capital receipts, and excess cash to fund estates spending in recent years in order not to borrow externally and avoid incurring interest payments. Due to the continued modernising of the estate linked to the 2020 programme, external borrowing is now required and interest payments will be made. The impending need to borrow externally was raised initially in last year’s report. Borrowing will commence late in the current year or early in 2018/19.

5.3 It is not prudent to borrow for short-life assets. These should be funded from capital grant, reserves allocated to fund capital schemes, or revenue budget contributions.

5.4 Since 2015/16 Home Office capital grant has reduced from over £1m to £0.5m. This means each year more than £0.5m has had to be funded from reserves or the revenue budget.

5.5 In addition, the need to keep the force fit-for-purpose, using modern enabling technology and tackling more cyber related crime, has required increased investment in short-life assets. These assets (e.g. body worn video and mobile devices) then need replacing every 3 to 5 years. The capital programme therefore includes the routine refresh of the growing ICT / digital estate (personal computers and servers) as well as increasing investment in infrastructure e.g. in networks and servers to deal with the growth in requirements for investigating, transferring and storing large volumes of digital data.

5.6 There are also a number of key developments coming through national police ICT programmes. These include required investments in Windows 10/ Office 365; Automatic Number Plate Recognition (ANPR); National Law Enforcement Data Service; Home Office Biometrics and the Emergency Services Network (replacing Airwave).

5.7 Funding constraints described earlier in the report have meant there has been an increased reliance on reserves to fund short-life assets. This issue is expanded further in the review of adequacy of reserves later in this report (see Section 7 and Appendix E).

5.8 This means that to continue to fund the replacement programme over the medium-term and beyond, and to protect reserve levels, additional savings are required to be made from the revenue budget.

5.9 It should also be noted that the hosting of ICT services in the “cloud” is being explored within policing and some of the new systems referred to in paragraph 5.6 will require it. At the point where services are provided from the “cloud” there will be additional costs incurred however there should be accompanying savings as the hardware required in-force would be reduced. Developments in this area will continue to be monitored and incorporated into future plans.

5.10 The proposed capital programme has been updated to 2021/22 and is set out in detail at Appendix D. The revenue consequences of the proposed capital programme have been fully taken into account in preparing the MTFP.

5.11 The table below summarises the Capital Programme 2018/22.

	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000
Estates schemes	4,995	6,240	210	5,010
ICT (Norfolk only)	1,052	2,245	898	2,848
Norfolk share of Joint Schemes (mostly ICT)	2,716	2,004	1,086	1,600
Vehicles and Equipment	863	795	791	814
Total	**9,626**	**11,284**	**2,985**	**10,272**

Note: The 2018/19 total includes £1.7m estimated as requiring carry forward from 2017/18.

5.12 The Capital Programme for 2018/19 is arranged in 3 tables:-

Table A	Schemes or technical refresh programmes approved for immediate start in 2018/19.
Table B	Schemes requiring a business case or further report to the CC(s)/PCC(s) for approval.
Table C	Longer term, provisional schemes requiring further development.

5.13 Key aspects of the programme are outlined below:

- Capital costs for ICT include an improved programme of equipment replacement and updating of the technology infrastructure.
- Projects to help modernise the Force are set out in the capital programme including continuing to invest in efficiency enabling technology such as body worn video, and investment in additional ICT storage capabilities to cope with the increasing requirements from policing the modern web environment.
- Building schemes include the one-off costs incurred in relation to the disposal of estate infrastructure that is either too large or not fit for purpose, and replacement with buildings that better meet operational needs and service requirements and cost less to maintain.
- Capital costs for fleet are for replacement vehicles and the equipment used to service them.

Capital Financing

5.14 The following financing sources have been identified for the outline capital programme.

Budget Option 1 and 2

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Grant	500	500	500	500
Capital Receipts	1,700	1,000	1,175	-
Revenue Budget	250	250	250	250
Use of Reserves	2,345	3,304	861	4,521
Internal/External Borrowing	4,831	6,230	200	5,000
Total	**9,626**	**11,284**	**2,985**	**10,271**

Budget Option 3

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Grant	500	500	500	500
Capital Receipts	1,700	1,000	1,175	-
Revenue	1,250	1,250	1,250	1,250
Use of Reserves	1,345	2,304	-140	3,521
Internal/External Borrowing	4,831	6,230	200	5,000
Total	**9,626**	**11,284**	**2,985**	**10,271**

Minimum Revenue Provision (MRP)

5.15 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 place a duty on authorities (including PCCs) to make an amount of Minimum Revenue Provision (MRP) each year that is considered to be prudent. The regulations are supported by statutory guidance to which authorities are required to have regard.

5.16 MRP is only used where funding of the asset does not use revenue contributions, capital grants or receipts from asset sales. MRP is charged annually against the Revenue Account reflecting the cost of the asset over its life, with the MTFP including the required provision. See Appendix I.

Compliance with the Prudential Code

5.17 The level of borrowing for the Capital Programme needs to be based on capital investment plans that are affordable, prudent and sustainable. Treasury management decisions need to be taken in accordance with best professional practice outlined in a Prudential Code published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

5.18 To demonstrate that the objectives of affordability, prudence and sustainability have been achieved, the Prudential Code requires Indicators to be determined by the PCC. These are designed to support and record local decision making and for comparison over time. They are not designed to be comparative performance indicators. Details of the proposed indicators for 2018/19 are provided in Appendix F. Progress against the indicators will be monitored throughout the year.

6. Annual Treasury Management Strategy 2018/19

6.1 Government regulations require the PCC to approve the investment and borrowing strategies and borrowing limits for 2018/19 prior to the start of the financial year. This is incorporated within an over-arching Treasury Management Strategy, which is attached at Appendix H.

7. Use of Reserves

7.1 There has been much recent publicity around the reserves held by PCCs. Full details of all reserves held by PCCs have been provided to the Home Office. Nationally, as at the 31 March 2017, some £1.6bn of reserves are held and are estimated to fall by 50% by March 2019. The Home Office will be introducing some further regulations which will require PCCs to be completely transparent on the reserves they hold and how they will be used over time. This report has, historically, provided information on all the reserves held and how they are/will be used. Norfolk's reserves will reduce from £24m (15% budget) at 31/3/17 to around £10m (6.5% of budget) depending on the budget option chosen. A full Reserves Strategy is set out in Appendix E.

7.2 General and earmarked reserves play a vital role in the financial management and financial standing of the PCC. The current policy of the PCC is to maintain the general reserve at around 3% of net revenue expenditure and total reserves at 6% to 7% of net budget.

7.3 Through sound financial management the PCC has set aside earmarked reserves to meet future spending needs. Three of the earmarked reserves in particular continue to be critical to the financial strategy as detailed below.

- **Budget Support Reserve -** This reserve is used to support the budget over the medium term by financing costs until savings come on stream, or pump priming efficiency measures.
- **Invest-to-Save Reserve -** This reserve provides funding for initiatives that will generate future savings.
- **Capital Financing Reserve -** This reserve is in place to fund short life capital assets over the medium-term to the extent that they cannot be funded from the revenue budget.

7.4 Details of contributions from reserves to fund revenue spending are included in Appendix B (ii) and the projected levels of reserves are detailed in Appendix F.

7.5 Over the last few years, reserves have been used to fund short-life capital assets, the cost of change (e.g. redundancies arising from implementing the significant change programme), and planned temporary staffing costs to respond to statutory and service pressures and transition programmes.

7.6 Careful consideration has been given to reserve levels over the medium-term, and beyond particularly by modelling capital financing over the next 20 years.

7.7 By the end of 2018/19 Reserves will be closer to minimum levels and need to be protected. Depending on the budget option chosen by the PCC contributions **to** reserves of between £2m and £6m will be required over the MTFP period and these would have to be financed by savings.

7.8 The PCC CFO has considered the proposed level of reserves and believes that they are adequate for the purposes for which they are intended.

8. Risk and Efficiency

8.1 Risk management is a key consideration for the PCC and the Chief Constable. There is an overall risk management strategy. Risk management is embedded and is an integral part of the decision making process. Local risk registers are in use throughout the Constabulary and the Office of the PCC (OPCC) and significant risks are reported to the corporate level.

8.2 The Chief Constable's corporate risk register is updated on an ongoing basis and presented regularly for review to the Command Team. A dedicated risk manager is in place to support the process. The OPCC also maintains a strategic risk register and the whole risk management process is monitored by the Audit Committee.

8.3 The main risks that may impact upon the delivery of the 2018/19 budget and Capital Programme are:

- Exceptional demands placed upon the service, particularly in relation to major incidents
- Requirements of new legislation or government directives
- Achieving the required outcomes from collaboration with other Forces
- Delivering the planned level of savings
- Maintaining an acceptable level of performance with a shrinking resource base
- The impact of the capital programme on the revenue budget.

8.4 To manage these risks it is essential that there is a robust monitoring procedure, and action is taken to offset the risks with continuous review processes. This process is undertaken through the Organisational Board chaired by the Deputy Chief Constables, and then reviewed by the Joint Chief Officer Team including the Chief Constables.

Efficiency

8.5 Implicit throughout all financial planning is the need to deliver efficiency and value for money (VFM) including partnership arrangements. There is a strong VFM focus through representation on a national high level working group and an internal working group and the Audit Committee reviews the VFM strategy and Her Majesty's Inspectorate of Constabulary (HMIC) profiles.

9. Chief Finance Officer's Section 25 Assurances

9.1 Section 25 of Part 2 of the Local Government Act 2003, as amended by the Police Reform and Social Responsibility Act 2011, places responsibility on the PCC Chief Finance Officer (CFO) to report on the robustness of the budget estimates (paras 3.30 to 3.32), the adequacy of balances and reserves (Section 7 and Appendix E) and issues of risk (Section 8). The PCC CFO confirms that he can provide all the required statutory assurances.

10. CONCLUSION

10.1 This report outlines three options for the proposed precept and the medium term financial plan for the period 2018/19 to 2021/22.

10.2 In each option savings are necessary over the medium term but the higher precept options present greater opportunity to protect front line policing and protect reserves.

11. OTHER IMPLICATIONS

11.1 The allocation of resources in accordance with the annual budget has implications for all areas of business. All of these are referred to in the report except diversity and sustainability. There are no specific diversity impacts. The budget reflects potential reductions in the use of natural resources. All significant projects, business cases and policy decisions are required to be reviewed for sustainability implications.

Appendix A

Home Office Grant 2018/19

1. The changes in Government funding for 2018/19 are set out in the table below:

	2017/18	2018/19	Reduction	
	£000	£000	£000	%
Police Main Grant	77,888	77,888	0	0.00%
Legacy Council Tax Grants	9,305	9,305	0	0.00%
Total all Grants	**87,193**	**87,193**	**0**	**0.00%**

2. The Legacy Council Tax grants are based on two historic elements. The first element is in respect of a former Council Tax Freeze Grant of £1.4m relating to the decision of the former Police Authority to freeze the Council Tax in 2011/12. The second element relates to the Council Tax Support Grant of £7.9m that has been payable since April 2013 when the Government made significant changes to Council Tax Benefit arrangements.

3. The Provisional Settlement is predicated on PCCs increasing council tax up to the referendum trigger level of £12 per annum.

4. The Home Office has “re-allocated” (top sliced) £945m in total from the national grant pot (16% higher than the £812m in the prior year). The main items making up the £133m increase are an additional £78m for the development of police technology programmes, £14m to strengthen the response to organised crime through the National Crime Agency and Regional Organised Crime Units, £25m for the Police Special Grant, and £9m to increase funding to Arm’s Length Bodies such as Her Majesty’s Inspectorate of Constabulary and Fire and Rescue Services, and the Independent Police Complaints Commission (IPCC), now the Independent Office for Police Conduct.

Appendix B (i)

Budget Option 1 – Council Tax Freeze

	Line	Budget 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
REVENUE FUNDING					
Home Office Grant	1	(77,888)	(77,888)	(77,109)	(76,338)
Legacy Council Tax Grants	2	(9,305)	(9,305)	(9,305)	(9,305)
Precept Income	3	(63,895)	(63,849)	(64,807)	(65,779)
TOTAL FUNDING	4	**(151,087)**	**(151,042)**	**(151,220)**	**(151,421)**
BASE REVENUE BUDGET INCLUDING INFLATION:					
Total Revenue Expenditure before savings	5	169,515	173,091	176,675	180,327
Revenue Funding of Capital Expenditure	6	1,470	1,470	1,470	1,470
Total Revenue Income inc Specific Grants	7	(17,385)	(17,447)	(17,509)	(17,572)
NET REVENUE BUDGET BEFORE KNOWN CHANGES AND SAVINGS	8	**153,600**	**157,114**	**160,636**	**164,224**
DEFICIT / (SURPLUS) BEFORE KNOWN CHANGES	9	**2,512**	**6,073**	**9,416**	**12,803**
Known / Expected Changes	10	7,467	7,275	4,580	8,336
Planned use of reserves	11	(4,475)	(1,312)	1,895	(1,766)
REVENUE DEFICIT BEFORE SAVINGS	12	**5,505**	**12,035**	**15,890**	**19,373**
Local Policing Review (Norfolk 2020)	13	(2,000)	(2,040)	(2,081)	(2,122)
Change Programme Savings	14	(2,036)	(3,100)	(3,455)	(3,530)
Savings to be identified	15	(1,469)	(6,895)	(10,355)	(13,721)
Total Cumulative Permanent Savings	16	**(5,505)**	**(12,035)**	**(15,890)**	**(19,373)**
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	17	**0**	**0**	**0**	**0**

Budget Option 2 – Council Tax increase 1.99%

	Line	Budget 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
REVENUE FUNDING					
Home Office Grant	18	(77,888)	(77,888)	(77,109)	(76,338)
Legacy Council Tax Grants	19	(9,305)	(9,305)	(9,305)	(9,305)
Precept Income	20	(65,145)	(66,414)	(68,753)	(71,174)
TOTAL FUNDING	21	**(152,338)**	**(153,607)**	**(155,167)**	**(156,817)**
BASE REVENUE BUDGET INCLUDING INFLATION:					
Total Revenue Expenditure before savings	22	169,515	173,091	176,675	180,327
Revenue Funding of Capital Expenditure	23	1,470	1,470	1,470	1,470
Total Revenue Income inc Specific Grants	24	(17,385)	(17,447)	(17,509)	(17,572)
NET REVENUE BUDGET BEFORE KNOWN CHANGES AND SAVINGS	25	**153,600**	**157,114**	**160,636**	**164,224**
DEFICIT / (SURPLUS) BEFORE KNOWN CHANGES	26	**1,262**	**3,507**	**5,470**	**7,407**
Known / Expected Changes	27	5,828	7,275	4,580	8,336
Planned use of reserves	28	(2,835)	(1,312)	1,895	(1,766)
REVENUE DEFICIT BEFORE SAVINGS	29	**4,254**	**9,470**	**11,944**	**13,977**
Local Policing Review (Norfolk 2020)	30	(2,000)	(2,040)	(2,081)	(2,122)
Change Programme Savings	31	(2,036)	(3,100)	(3,455)	(3,530)
Savings to be identified	32	(218)	(4,330)	(6,409)	(8,325)
Total Cumulative Permanent Savings	33	**(4,254)**	**(9,470)**	**(11,944)**	**(13,977)**
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	34	**0**	**0**	**0**	**0**

Continued overleaf..

Appendix B (i)

Budget Option 3 – Council Tax increase 5.51%

	Line	Budget 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
REVENUE FUNDING					
Home Office Grant	35	(77,888)	(77,888)	(77,109)	(76,338)
Legacy Council Tax Grants	36	(9,305)	(9,305)	(9,305)	(9,305)
Precept Income	37	(67,362)	(70,887)	(73,374)	(75,947)
TOTAL FUNDING	38	**(154,555)**	**(158,080)**	**(159,788)**	**(161,589)**
BASE REVENUE BUDGET INCLUDING INFLATION:					
Total Revenue Expenditure before savings	39	169,515	173,091	176,675	180,327
Revenue Funding of Capital Expenditure	40	1,470	1,470	1,470	1,470
Total Revenue Income inc Specific Grants	41	(17,385)	(17,447)	(17,509)	(17,572)
NET REVENUE BUDGET BEFORE KNOWN CHANGES AND SAVINGS	42	**153,600**	**157,114**	**160,636**	**164,224**
DEFICIT / (SURPLUS) BEFORE KNOWN CHANGES	43	**(955)**	**(966)**	**848**	**2,635**
Known / Expected Changes	44	7,466	7,274	4,579	8,335
Planned use of reserves	45	(3,475)	(2,188)	1,895	(1,766)
REVENUE DEFICIT BEFORE SAVINGS	46	**3,036**	**4,120**	**7,322**	**9,204**
Local Policing Review (Norfolk 2020)	47	(1,000)	(1,020)	(1,040)	(1,061)
Change Programme Savings	48	(2,036)	(3,100)	(3,455)	(3,530)
Savings to be identified	49	0	0	(2,827)	(4,613)
Total Cumulative Permanent Savings	50	**(3,036)**	**(4,120)**	**(7,322)**	**(9,204)**
REVENUE DEFICIT/(SURPLUS) AFTER SAVINGS	51	**0**	**0**	**0**	**0**

Appendix B(ii)

Analysis of Known/Expected Changes
Options 1 and 2

	Line	Budget 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
STATUTORY CHANGES					
Rent and Housing Allowance Reductions	1	(200)	(400)	(600)	(700)
Variation in Bank Holiday Numbers (9 in 2017/18 then 7, 8, 9 &10)	2	(250)	(125)		250
Non-consolidated pay awards (18/19: 5 months re 17/18 award)	3	417			
Local Government Pension Scheme increase	4	150	280	280	280
Firearms Licensing Income	5	114	68	(43)	(35)
Apprenticeship Levy (change in assumption compared to last MTFP)	6	125	125	125	125
TOTAL STATUTORY CHANGES	7	**356**	**(52)**	**(238)**	**(80)**
SERVICE DEVELOPMENTS					
Budgetary pressures	8	854	854	854	854
7 Force Collaboration Contribution	9	167	169		
Athena Consultancy	10	23			
Reduction in investment Interest	11	96	96	96	96
Contractual Risk in respect of Airwave	12			285	285
Transitional cost in respect of Local Policing Review (Norfolk 2020)	13	804	394		
Commissioning Plan	14	200	200		
TOTAL SERVICE DEVELOPMENTS	15	**2,144**	**1,713**	**1,235**	**1,235**
CHANGES SUBJECT TO BUSINESS CASES					
ERP Developments	16	171			
Taser rollout and upgrade	17	55	62	131	
Cost of Change	18	516			
TOTAL CHANGES SUBJECT TO BUSINESS CASES	19	**741**	**62**	**131**	
CAPITAL FINANCING					
Capital Programme Funding	20	2,345	3,304	860	4,521
Investment in Technology	21				
Minimum Revenue Provision	22	148	159	373	361
Interest	23	240	500	630	710
TOTAL CAPITAL FINANCING	24	**2,733**	**3,963**	**1,863**	**5,592**
GROWTH FOLLOWING CHALLENGE PANEL PROCESS					
Permanent Growth:					
Pay	25	186	186	186	186
Non-Pay	26	864	1,403	1,403	1,403
Temporary Growth					
Pay	27	443			
TOTAL GROWTH FOLLOWING CHALLENGE PANEL PROCESS	28	**1,493**	**1,589**	**1,589**	**1,589**
Total Changes Before Reserve Movement Adjustments	29	**7,467**	**7,275**	**4,580**	**8,336**
CONTRIBUTION TO RESERVES					
Budget Support Reserve	30		2,000	2,000	2,000
Capital Financing Reserve	31				
Loan Repayment Reserve	32		755	755	755
Reserve Funded adjustments					
Temporary growth	33	(443)			
7 Force Collaboration Contribution	34	(167)	(169)		
Transitional cost in respect of Norfolk 2020 model	35	(804)	(394)		
Capital Programme Funding	36	(2,345)	(3,304)	(860)	(4,521)
Cost of Change	37	(516)			
Financing Commissioning Plan	38	(200)	(200)		
Net Reserve Movements	39	**(4,475)**	**(1,312)**	**1,895**	**(1,766)**
Total Known / Expected Changes (net of reserve movements)	40	**2,992**	**5,963**	**6,475**	**6,570**

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Appendix B(ii)

Analysis of Known/Expected Changes
Option 3

	Line	Budget 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
STATUTORY CHANGES					
Rent and Housing Allowance Reductions	1	(200)	(400)	(600)	(700)
Variation in Bank Holiday Numbers (9 in 2017/18 then 7, 8, 9 &10)	2	(250)	(125)		250
Non-consolidated pay awards (18/19: 5 months re 17/18 award)	3	417			
Local Government Pension Scheme increase	4	150	280	280	280
Firearms Licensing Income	5	114	68	(43)	(35)
Apprenticeship Levy (change in assumption compared to last MTFP)	6	125	125	125	125
TOTAL STATUTORY CHANGES	7	**356**	**(52)**	**(238)**	**(80)**
SERVICE DEVELOPMENTS					
Budgetary Pressures	8	853	853	853	853
7 Force Collaboration Contribution	9	167	169		
Athena Consultancy	10	23			
Reduction in investment Interest	11	96	96	96	96
Contractual Risk in respect of Airwave	12			285	285
Transitional cost in respect of Local Policing Review (Norfolk 2020)	13	804	394		
Commissioning Plan	14	200	200		
TOTAL SERVICE DEVELOPMENTS	15	**2,143**	**1,712**	**1,234**	**1,234**
CHANGES SUBJECT TO BUSINESS CASES					
ERP Developments	16	171			
Taser Rollout and Upgrade	17	55	62	131	
Cost of Change	18	516			
TOTAL CHANGES SUBJECT TO BUSINESS CASES	19	**741**	**62**	**131**	
CAPITAL FINANCING					
Capital Programme Funding	20	1,345	2,304	(140)	3,521
Investment in Technology	21	1,000	1,000	1,000	1,000
Minimum Revenue Provision	22	148	159	373	361
Interest	23	240	500	630	710
TOTAL CAPITAL FINANCING	24	**2,733**	**3,963**	**1,863**	**5,592**
GROWTH FOLLOWING CHALLENGE PANEL PROCESS					
Permanent Growth:					
Pay	25	186	186	186	186
Non-Pay	26	864	1,403	1,403	1,403
Temporary Growth					
Pay	27	443			
TOTAL GROWTH FOLLOWING CHALLENGE PANEL PROCESS	28	**1,493**	**1,589**	**1,589**	**1,589**
Total Changes Before Reserve Movement Adjustments	29	**7,466**	**7,274**	**4,579**	**8,335**
CONTRIBUTION TO RESERVES					
Budget Support Reserve	30		124		
Capital Financing Reserve	31			1,000	1,000
Loan Repayment Reserve	32		755	755	755
Reserve Funded adjustments					
Temporary growth	33	(443)			
7 Force Collaboration Contribution	34	(167)	(169)		
Transitional cost in respect of Norfolk 2020 model	35	(804)	(394)		
Capital Programme Funding	36	(1,345)	(2,304)	140	(3,521)
Cost of Change	37	(516)			
Financing Commissioning Plan	38	(200)	(200)		
Net Reserve Movements	39	**(3,475)**	**(2,188)**	**1,895**	**(1,766)**
Total Known / Expected Changes (net of reserve movements)	40	**3,991**	**5,086**	**6,474**	**6,569**

Appendix B(iii)

Analysis of Savings
Options 1 and 2

		Line	Forecast 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
Single Force:						
	Local Policing Review (Norfolk 2020)	1	2,000	2,040	2,081	2,122
Total Single Force Savings:		2	**2,000**	**2,040**	**2,081**	**2,122**
Change and Efficiency Savings:						
	As per challenge panels:					
	Pay (including inflation)	3	1,126	1,975	2,015	2,055
	Non-Pay	4	660	660	660	660
	Additional Scoping of change programme	5		215	530	565
	Absorb 1% of non-pay inflation	6	250	250	250	250
Total Change and Efficiency Savings		7	**2,036**	**3,100**	**3,455**	**3,530**
TOTAL PERMANENT SAVINGS AGAINST 2017/18 BASE		8	**4,036**	**5,140**	**5,535**	**5,652**

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Appendix B(iii)

Analysis of Savings
Option 3

	Line	Forecast 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
Single Force:					
Local Policing Review (Norfolk 2020)	1	1,000	1,020	1,040	1,061
Total Single Force Savings:	2	**1,000**	**1,020**	**1,040**	**1,061**
Change and Efficiency Savings:					
As per challenge panels:					
Pay (including inflation)	3	1,126	1,975	2,015	2,055
Non-Pay	4	660	660	660	660
Additional Scoping of change programme	5		215	530	565
Absorb 1% of non-pay inflation	6	250	250	250	250
Total Change and Efficiency Savings	7	**2,036**	**3,100**	**3,455**	**3,530**
TOTAL PERMANENT SAVINGS AGAINST 2017/18 BASE	8	**3,036**	**4,120**	**4,495**	**4,591**

Appendix C

High Level Analysis of the Net Budget 2018/19

Year	OPCCN	PCC's Commissioning	Chief Constable	Capital Financing	Use of Reserves	Net Budget
	£000	£000	£000	£000	£000	£000
2017/18	970	1,468	149,743	5,635	(8,104)	**149,712**
2018/19	978	1,228	149,153	4,204	(4,475)	**151,087**
			above assumes savings of £1,469k to be found			
2019/20	997	1,228	144,696	5,433	(1,312)	**151,042**
			above includes savings of £6,895k to be found			
2020/21	1,017	1,028	143,948	3,333	1,895	**151,220**
			above includes savings of £10,355k to be found			
2021/22	1,037	1,028	144,061	7,062	(1,766)	**151,421**
			above includes savings of £13,721k to be found			

Option 2 - 1.99% increase

Year	OPCCN	PCC's Commissioning	Chief Constable	Capital Financing	Use of Reserves	Net Budget
	£000	£000	£000	£000	£000	£000
2017/18	970	1,468	149,743	5,635	(8,104)	**149,712**
2018/19	978	1,228	150,403	4,204	(4,475)	**152,338**
			above includes savings of £218k to be found			
2019/20	997	1,228	147,261	5,433	(1,312)	**153,607**
			above includes savings of £4,330k to be found			
2020/21	1,017	1,018	147,904	3,333	1,895	**155,167**
			above includes savings of £6,409k to be found			
2021/22	1,037	1,018	149,466	7,062	(1,766)	**156,817**
			above includes savings of £8,325k to be found			

Option 3 - 5.5% increase (£11.97 per annum)

Year	OPCCN	PCC's Commissioning	Chief Constable	Capital Financing	Use of Reserves	Net Budget
	£000	£000	£000	£000	£000	£000
2017/18	970	1,468	149,743	5,635	(8,104)	**149,712**
2018/19	978	1,228	151,620	4,204	(3,475)	**154,555**
2019/20	997	1,228	152,610	5,433	(2,188)	**158,080**
2020/21	1,017	1,018	152,525	3,333	1,895	**159,788**
			above includes savings of £2,827k to be found			
2021/22	1,037	1,018	154,239	7,062	(1,766)	**161,589**
			above includes savings of £4,613k to be found			

Appendix D

Capital Programme 2018/22

PROJECT	Slippage assumed in 2017/18 monitoring	Additional Requirement in 2018/19	2018-19 Total Requirement			2019-20	2020-21	2021-22
			Table A	Table B	Table C			
Gateway 11 Car Parking	50,000		50,000			0	0	0
Attleborough - New Build at Fire Station.	500,000	181,000	681,000			30,000	0	0
Gorleston - New Build at Beacon Park (Now Fire Project)			0			325,000	0	0
Carbon Management		10,000	10,000			10,000	10,000	10,000
Gt Yarmouth - Remodelling.			0			0	0	2,500,000
Bethel Street - Remodelling.			0			0	0	2,500,000
2020 East	25,000	975,000	1,000,000			5,775,000	200,000	0
2020 West	340,000	2,760,000	3,100,000			100,000	0	0
Fire Service Collaboration Works	154,000		154,000			0	0	0
	1,069,000	**3,926,000**	**4,995,000**	**0**	**0**	**6,240,000**	**210,000**	**5,010,000**
ICT Replacements - Desktop Services	170,000	854,400	1,024,400			717,000	194,910	864,860
ICT Replacements - Communications		28,000	28,000			28,000	28,000	28,000
ICT - Additional 2020 Requirements			0			1,000,000	0	0
ESN (Emergency Services Network)			0			500,000	675,000	1,955,000
	170,000	**882,400**	**1,052,400**	**0**	**0**	**2,245,000**	**897,910**	**2,847,860**
Vehicle Replacement Programme	0	786,600	786,600			794,700	790,700	813,700
Athena	76,000	282	76,282			0	0	0
	76,000	**786,882**	**862,882**	**0**	**0**	**794,700**	**790,700**	**813,700**
Total Norfolk Only	**1,315,000**	**5,595,282**	**6,910,282**	**-**	**-**	**9,279,700**	**1,898,610**	**8,671,560**
Norfolk Capital Projects	1,315,000	5,595,282	6,910,282	-	-	9,279,700	1,898,610	8,671,560
Norfolk Share of Joint Projects	422,808	2,293,114	1,076,548	1,639,374	-	2,004,530	1,086,449	1,599,744
Total Norfolk Capital Programme	**1,737,808**	**7,888,396**	**7,986,830**	**1,639,374**	**-**	**11,284,230**	**2,985,059**	**10,271,304**

Appendix D

Capital Programme 2018/22 – continued

JOINT PROJECTS	Slippage assumed in 2017/18 monitoring	Additional Requirement in 2018/19	2018-19 Total Requirement			2019-20	2020-21	2021-22
Replacement Schemes:			Table A	Table B	Table C			
Joint ICT Replacements - Servers		728,000	728,000			713,000	854,000	932,000
Joint ICT Replacements - Communications		26,000	26,000			176,000	26,000	26,000
ICT Replacements - Network		448,000	448,000			588,000	371,000	587,000
Microwave Refresh		69,000	69,000			69,500	73,000	46,500
ANPR Cameras		0	0			500,000	0	0
WAN Contract Renewal		0	0			0	0	200,000
Mobile Device Replacement Programme		100,000	100,000			100,000	100,000	100,000
BWV Device Replacement Programme		70,000	70,000			70,000	70,000	70,000
ANPR Vehicle Kit Refresh		0	0			150,000	0	150,000
Access Control		30,000	30,000			30,000	30,000	0
Projects to be completed								
CCR Telephony	194,809	191	195,000			0	0	0
Mobile Data	231,813	-5,813	226,000			0	0	700,000
Projects subject to Business Case								
Video Conferencing	310,000	-160,000		150,000		0	0	0
Digital Recording/Streaming		300,000		300,000		0	0	0
Windows 10		1,350,000		1,350,000		0	0	0
INCA/Telematics		500,000		500,000		0	0	0
Genie (Automated Filing Solution)	6,450	13,550		20,000		0	0	0
XRY Kiosks		105,000		105,000		0	0	0
Business Data Management (BRC)		0		0		780,000	0	0
Taser Rollout to 150 officers		134,150		134,150		0	0	0
Taser Upgrade - X2s		322,000		322,000		246,400	385,400	0
Information Assurance Monitoring		0				100,000	0	0
Total Joint Capital Programme	**743,072**	**4,030,078**	**1,892,000**	**2,881,150**	**0**	**3,522,900**	**1,909,400**	**2,811,500**
Joint Capital Projects - Norfolk	422,808	2,293,114	1,076,548	1,639,374	0	2,004,530	1,086,449	1,599,744
Joint Capital Projects - Suffolk	320,264	1,736,964	815,452	1,241,776	0	1,518,370	822,951	1,211,757
	743,072	**4,030,078**	**1,892,000**	**2,881,150**	**0**	**3,522,900**	**1,909,400**	**2,811,500**

Capital Financing is shown in the Tables at paragraph 5.14

Appendix E

Reserves Strategy

1. It is important to consider the PCC's reserves at the same time as the budget to ensure that resources are available to fund spending at a level commensurate with the needs of the PCC and Constabulary. Forecasting cash flows and balances over the budget period ensures efficient and effective financial management and avoids unnecessary finance charges. Reserves are held for either general purposes (such as working capital or fall-back to cover exceptional unforeseen circumstances), or earmarked for specific purposes. The PCC complies with the definition of reserves contained within CIPFA's Accounting Code of Practice.

2. The Strategy requires an annual review of reserves to be undertaken and reported to the PCC. This reflects guidance on reserves issued by CIPFA. The most recent guidance requires an annual review of reserves to be considered by the PCC as part of good practice in the management of financial reserves and balances.

3. The minimum prudent level of reserves is a matter of judgement rather than prescription. Neither CIPFA nor statute sets a minimum level of reserves. In determining the level and type of reserves, the PCC has to take into account relevant local circumstances and the advice of the Chief Constable and CFO in making a reasoned judgement on the appropriate level of its reserves.

4. In order to assess the adequacy of reserves when setting the budget, the PCC, on the advice of the CFO, should take account of the strategic, operational and financial risks facing the organisation. This assessment of risk should include external risks, as well as internal risks, for example the ability to deliver planned efficiency savings.

5. The ultimate use of reserves will be dependent upon both the timing and level of costs and savings over the period of the MTFP.

General Reserve

Assessment of adequacy

6. The **General Reserve** is held to enable the PCC to manage unplanned or unforeseen events. In forming a view on the level of General Reserve, account is taken of the level of financial control within the organisation and comparisons with similar bodies. Also taken into account is the risk of unforeseen expenditure occurring, particularly major operations, risk of failure to deliver the savings programme and sensitivity analysis of changes in assumptions included in the plan.

7. Within the MTFP appropriate estimates are made of a number of key items including provision of pay and price rises, as well as a forecast of interest movements. In addition, prudent assumptions are made for the forecast capital programme and for future capital receipts included in the Plan. These estimates and assumptions also take into account the general financial climate to which the organisation is subject.

8. Norfolk Constabulary has generally managed its demand led pressures within its budget envelope year on year, and where appropriate has used earmarked reserves to meet additional significant demand pressures and unbudgeted costs.

9. Since 2010 the constabulary has a proven track record of delivering efficiency savings year on year that will total £34m by the end of 2017/18.

10. In this MTFP robust detailed savings plans are in place for 2018/19 and 2019/20, with additional savings contained in a high level scoped programme for 2020/21 and 2021/22. These are outlined in the main report and in Appendix B(iii). The Chief Constable and PCC are committed to continuing to deliver efficiency and productivity gains in each year of the Plan.

11. The General Reserve is being maintained at £4.475m (3% of budget) for the duration of the Plan. This is a prudent and adequate amount to hold as a General Reserve. This is shown in Appendix F.

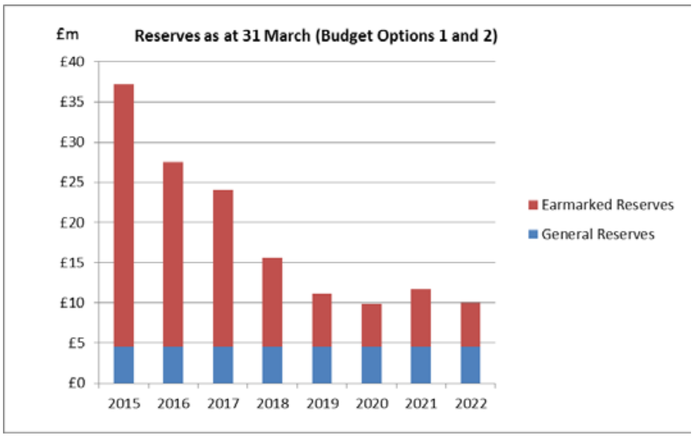
12. A call on the general reserve, particularly for major operations, would likely also result in an application to the Home Office for Special Policing Grant (SPG). The Home Office is currently reviewing the rules for SPG.

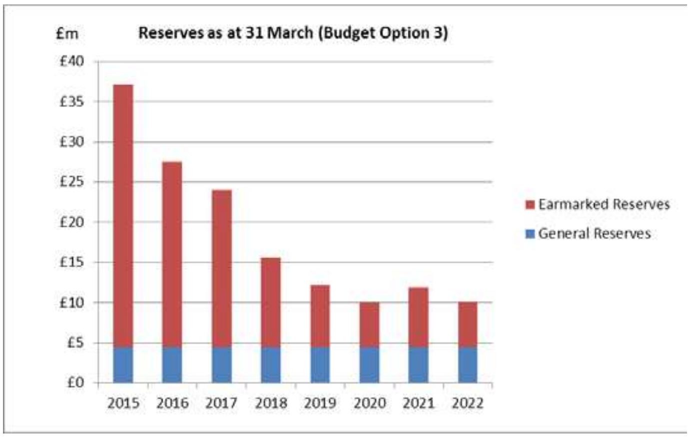
Earmarked reserves

13. These are reserves that are held for a specific purpose, whereby funds are set aside for future use when the need arises.

14. The level of reserves and predicted movement for these reserves is set out in Appendix F. All reserve levels are reviewed annually.

15. The diagrams below illustrate how the reserves are being used over the medium term.





16. The purpose and strategy for each reserve is set out below.

17. **OCC and PIC Sinking Funds.** These reserves were being written off by £98k a year over the life of the PFI contracts in place for the Operations and Communications Centre (OCC) and the Police Investigations Centres (PIC). The requirement to fund £98k per year from reserves has been replaced with permanent base budget of the same value. This then releases the reserves for other uses. The balances have been transferred to the Invest to Save reserve to support the ongoing cost of change.

18. The **Budget Support Reserve** is being held as a contingency against future demand led pressures. Between 2017/18 and 2019/20 the reserve will also support budget pressures arising from transitional arrangements from the implementation of the Local Policing Review (Norfolk 2020). In addition nearly £1.1m is being transferred to the Capital Financing Reserve to support the investment in short-life assets. The reserve is planned to be reduced to just over £0.250m by the end of the planning period. This would be the minimum balance.

19. This **Invest to Save Reserve** provides funding for initiatives that will generate future savings and also provides funds to support the cost of change. This has been added to by moving balances from the OCC and Police Investigation Centre Sinking Funds to this reserve. The plan is to reduce this to just under £0.5m by the end of the planning period.

20. The **Capital Financing Reserve** is used to fund the short-life asset element of the Capital Programme when the amount required for investing / refreshing in modernising technologies exceeds the budget available for this purpose. The strategy is to “top-up” this reserve in the last 2 years of the plan to fund that requirement. The “top-up” will be funded from the efficiency and savings programme. This will leave a balance to fund further investment beyond the planning period.

21. The **Maturity Loan Repayment Reserve** is a new reserve that is being established to build up balances required to repay legacy maturity loans (i.e. interest only loans) the bulk of which were taken out in the 1990s. The total repayable against these loans is £12.8m. The first loan to be repaid is due in 2022/23 the final loan is due in 2056. Between 2022/23 and 2027/28 £6.794m is due for repayment, and this is being built up by 9 years of £0.755m contributions into this reserve. The balance in this reserve is therefore not available for any other use.

22. The **Insurance Reserve** is being held as a contingency against future increases in premiums and/or increases in the value of assessed insurance liabilities. The reserve and also the provision within the accounts are actuarially assessed by external advisors.

23. The **PCC Reserve** is made up from previous underspends against the budgets of the Office of the Police and Crime Commissioner and the commissioning budget. The reserve is used to smooth commissioning spending over the MTFP period and to commission additional services in the community or delivered by the Constabulary, for instance in supporting victims.

24. The **Safety Camera Reserve** is held on behalf of the PCC, Chief Constable and Norfolk County Council. Income is dependent upon the number of Speed Awareness courses delivered. The use is reviewed and agreed at the Safety Camera Oversight Board.

Conclusion

25. The current policy, as demonstrated in the MTFP, is to maintain revenue general balances close to an operational guideline level of 3% of the net annual revenue budget. Across the police service this is the generally accepted level which is appropriate as the prolonged period of austerity continues.

26. The earmarked reserves have been described and the strategy is to keep these for specific purposes and maintain at around 3% to 4% of the net revenue budget (excluding the Safety Camera Reserve), to ensure taxpayer's money is being used as efficiently as possible. The strategy is to contribute to the Capital Financing Reserve to keep this at an appropriate level through the plan.

27. Having considered the levels of reserves included in the MTFP, and acknowledging the Chief Constable's commitment to work with the PCC to balance the budget over the period of the MTFP and taking account of the approach to managing financial risk described in the report, the CFO's advice is that there will be adequate general and earmarked reserves to continue the smooth running of the PCC and Constabulary's finances over the medium term financial planning period.

Appendix F

FORECAST MOVEMENT IN GENERAL AND EARMARKED RESERVES 2017/18 to 2021/22
Options 1 and 2

PROJECTION OF RESERVES LEVELS:	Total General Reserve	OCC Sinking Fund	PIC Sinking Fund	Budget Support	Invest to Save	Capital Financing	Maturity Loan Repayment Reserve	Insurance	PCC	Total Earmarked Reserve	Total General and Earmarked Reserves
	£000			£000	£000	£000	£000	£000	£000	£000	
31/03/2017 Actual	**4,475**	**1,680**	**384**	**5,718**	**1,080**	**8,583**		**786**	**1,340**	**19,571**	**24,046**
Proposed Changes 2017/18:											
Transfer to Revenue from Reserves				(1,266)	(268)	(3,496)				**(5,030)**	
Transfer from Budget Support to Capital Financing				(1,092)		1,092					
Transfer from Sinking Funds to Invest to Save		(1,680)	(384)		2,064						
Constabulary Overspend (forecast)				(1,288)						**(1,288)**	
Financing Commissioning Plan									(280)	**(280)**	
Cost of Change					(1,548)					**(1,548)**	
Transfer to Revenue from Reserves (Norfolk 2020)				(289)						**(289)**	
31/03/2018 Forecast	**4,475**			**1,783**	**1,328**	**6,179**		**786**	**1,060**	**11,136**	**15,611**
Proposed Changes 2018/19:											
Transfer to Revenue from Reserves				(443)	(167)	(2,345)				**(2,955)**	
Transfer to Revenue from Reserves (Norfolk 2020)				(804)						**(804)**	
Cost of Change					(516)					**(516)**	
Financing Commissioning Plan									(200)	**(200)**	
31/03/2019 Forecast	**4,475**			**536**	**645**	**3,834**		**786**	**860**	**6,661**	**11,136**
Proposed Changes 2019/20:											
Transfer to Revenue from Reserves					(169)	(3,304)				**(3,473)**	
Transfer to Revenue from Reserves (Norfolk 2020)				(394)						**(394)**	
Contribution to Reserves						2,000	755			**2,755**	
Financing Commissioning Plan									(200)	**(200)**	
31/03/2020 Forecast	**4,475**			**142**	**476**	**2,530**	**755**	**786**	**660**	**5,349**	**9,824**
Proposed Changes 2020/21:											
Transfer to Revenue from Reserves						(860)				**(860)**	
Contribution to Reserves						2,000	755			**2,755**	
31/03/2021 Forecast	**4,475**			**142**	**476**	**3,670**	**1,510**	**786**	**660**	**7,244**	**11,719**
Proposed Changes 2021/22:											
Transfer to Revenue from Reserves						(4,521)				**(4,521)**	
Contribution to Reserves						2,000	755			**2,755**	
31/03/2022 Forecast	**4,475**			**142**	**476**	**1,148**	**2,265**	**786**	**660**	**5,478**	**9,953**

Excluding Safety Camera Partnership Reserve.

Appendix F

FORECAST MOVEMENT IN GENERAL AND EARMARKED RESERVES 2017/18 to 2021/22
Option 3

PROJECTION OF RESERVES LEVELS:	Total General Reserve	OCC Sinking Fund	PIC Sinking Fund	Budget Support	Invest to Save	Capital Financing	Maturity Loan Repayment Reserve	Insurance	PCC	Total Earmarked Reserve	Total General and Earmarked Reserves
	£000			£000	£000	£000	£000	£000	£000	£000	
31/03/2017 Actual	**4,475**	**1,680**	**384**	**5,718**	**1,080**	**8,583**		**786**	**1,340**	**19,571**	**24,046**
Proposed Changes 2017/18:											
Transfer to Revenue from Reserves				(1,266)	(268)	(3,496)				**(5,030)**	
Transfer from Budget Support to Capital Financing				(1,092)		1,092					
Transfer from Sinking Funds to Invest to Save		(1,680)	(384)		2,064						
Constabulary Overspend (forecast)				(1,288)						**(1,288)**	
Financing Commissioning Plan									(280)	**(280)**	
Cost of Change					(1,548)					**(1,548)**	
Transfer to Revenue from Reserves (Norfolk 2020)				(289)						**(289)**	
31/03/2018 Forecast	**4,475**			**1,783**	**1,328**	**6,179**		**786**	**1,060**	**11,136**	**15,611**
Proposed Changes 2018/19:											
Transfer to Revenue from Reserves				(443)	(167)	(1,345)				**(1,955)**	
Transfer to Revenue from Reserves (Norfolk 2020)				(804)						**(804)**	
Cost of Change					(516)					**(516)**	
Financing Commissioning Plan									(200)	**(200)**	
31/03/2019 Forecast	**4,475**			**536**	**645**	**4,834**		**786**	**860**	**7,661**	**12,136**
Proposed Changes 2019/20:											
Transfer to Revenue from Reserves					(169)	(2,304)				**(2,473)**	
Transfer to Revenue from Reserves (Norfolk 2020)				(394)						**(394)**	
Contribution to Reserves				124			755			**879**	
Financing Commissioning Plan									(200)	**(200)**	
31/03/2020 Forecast	**4,475**			**266**	**476**	**2,530**	**755**	**786**	**660**	**5,473**	**9,948**
Proposed Changes 2020/21:											
Transfer to Revenue from Reserves						140				**140**	
Contribution to Reserves						1,000	755			**1,755**	
31/03/2021 Forecast	**4,475**			**266**	**476**	**3,670**	**1,510**	**786**	**660**	**7,368**	**11,843**
Proposed Changes 2021/22:											
Transfer to Revenue from Reserves						(3,521)	755			**(2,766)**	
Contribution to Reserves						1,000				**1,000**	
31/03/2022 Forecast	**4,475**			**266**	**476**	**1,148**	**2,265**	**786**	**660**	**5,602**	**10,077**

Excluding Safety Camera Partnership Reserve.

Appendix G

Prudential Code Indicators 2018/19, 2019/20, 2020/21

1. Background

1.1 The Prudential Code for capital investment came into effect on 1st April 2004. It replaced the complex regulatory framework, which only allowed borrowing if specific government authorisation had been received. The Prudential system is one based on self-regulation. All borrowing undertaken is self-determined under the prudential code. A revised Prudential Code was published in December 2017 and is to applied from 2018/19

1.2 Under Prudential arrangements the PCC can determine the borrowing limit for capital expenditure. The Government does retain reserve powers to restrict borrowing if that is required for national economic reasons.

1.3 The key objectives of the Code are to ensure, within a clear framework, that capital investment plans are affordable, prudent and sustainable. The Code specifies indicators that must be used and factors that must be taken into account. The Code requires the PCC to set and monitor performance on:

- capital expenditure
- affordability
- external debt
- treasury management (now included within Treasury Management strategy)

1.4 The required indicators are:

- Capital Expenditure Forecast
- Capital Financing Requirement
- Actual External Debt
- Authorised Limit for External Debt
- Operational Boundary Limit for External Debt

1.5 Once determined, the indicators can be changed so long as this is reported to the PCC.

1.6 Actual performance against indicators will be monitored throughout the year. All the indicators will be reviewed and updated annually.

2. The Indicators

2.1 The **Capital Expenditure Payment Forecast** is detailed in Appendix D. The total estimated payments are:

	2018/19	**2019/20**	**2020/21**
	£m	£m	£m
Capital Expenditure Forecast	9.626	11.284	2.985

The PCC is being asked for approval to an overall Capital Programme based on the level of capital financing costs contained within the draft revenue budget.

2.2 The **ratio of capital financing costs to net revenue budget** shows the estimated annual revenue costs of borrowing (net interest payable on debt and the minimum revenue provision for repaying the debt), as a proportion of annual income from local taxation and non-specific government grants. The estimates include PFI MRP and interest costs. Estimates of the ratio of capital financing costs to net revenue budget for future years are:

Ratio of Capital Financing Costs to Net Revenue Budget		
2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
5.49%	5.46%	5.62%

2.3 The **capital financing requirement** represents capital expenditure not yet financed by capital receipts, revenue contributions or capital grants. It measures the underlying need to borrow for a capital purpose, although this borrowing may not necessarily take place externally. Estimates of the end of year capital financing requirement for future years are:

Capital Financing Requirement			
31/03/18 Estimate	31/03/19 Estimate	31/03/20 Estimate	31/03/21 Estimate
£91.303m	£94.284m	£98.555m	£96.473m

2.4 The guidance on **net borrowing for capital purposes** advises that:

"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."

Net borrowing refers to the PCC's total external borrowing net of any temporary cash investments and must work within this requirement.

2.5 The Code defines the **authorised limit for external debt** as the sum of external borrowing and any other financing long-term liabilities e.g. finance leases. It is recommended that the PCC approve the 2018/19 and future years limits.

For 2018/19 this will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

As required by the Code, the PCC is asked to delegate authority to the Chief Finance Officer (OPCCN), within the total limit for any individual year, to effect movement between the separate limits for borrowing and other long term liabilities. Any such changes made will be reported to the PCC.

Authorised Limit for External Debt			
	2018/19	2019/20	2020/21
	£m	£m	£m
PWLB borrowing	23.847	31.964	31.792
Other long term liabilities (OCC PFI)	25.052	24.552	23.994
Other long term liabilities (PIC PFI)	35.243	34.564	33.834
Headroom	14.856	12.403	11.676
Total	98.998	103.483	101.297

These proposed limits are consistent with the Capital Programme. They provide headroom to allow for operational management, for example unusual cash movements.

2.6 The Code also requires the PCC to approve an **operational boundary limit for external debt** for the same time period. The proposed operational boundary for external debt is the same calculation as the external debt limit without the additional headroom. The operational boundary represents a key management tool for in year monitoring.

Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified again. The PCC is asked to delegate authority to the Chief Finance Officer (OPCCN), within the total operational boundary for any individual year, to make any required changes between the separately agreed figures for borrowing and other long-term liabilities. Any changes will be reported to the PCC.

Operational Boundary Limit for External Debt			
	2018/19	2019/20	2020/21
	£m	£m	£m
PWLB borrowing	23.847	31.964	31.792
Other long term liabilities (OCC PFI)	25.052	24.552	23.994
Other long term liabilities (PIC PFI)	35.243	34.564	33.834
Total	84.142	91.080	89.621

Appendix H

The Office of the Police and Crime Commissioner for Norfolk
Annual Investment and Treasury Management Strategy Statement 2018/19

1. Introduction

1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice for Treasury Management in the Public Services (the Code) requires local authorities to produce a treasury management strategy for the year ahead. The PCC is required to comply with the Code through regulations issued under the Local Government Act 2003 and has adopted specific clauses and policy statements from the Code as part of its Financial Regulations.

1.2 Complementary to the CIPFA Code is the Department for Communities and Local Government's (DCLG's) Investment Guidance, which requires local authorities and PCCs to produce an Annual Investment Strategy. This report combines the reporting requirements of both the CIPFA Code and DCLG's Investment Guidance.

1.3 The primary objectives of the PCC's Investment Strategy are to safeguard the timely repayment of principal and interest, whilst ensuring adequate liquidity for cash flow and the generation of investment yield. A flexible approach to borrowing for capital purposes will be maintained which avoids the 'cost of carrying debt' in the short term. This strategy is prudent while investment returns are low and counterparty risk (the other party involved in a financial transaction, typically a bank or building society) remains relatively high.

2. The Treasury Management Function

2.1 The CIPFA Code defines treasury management activities as "the management of the PCC's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The PCC regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its 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.

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

2.2 The PCC is required to operate a balanced budget, which broadly means that cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties, providing adequate liquidity before considering investment return.

2.3 A further function of the treasury management service is to provide for the borrowing requirement of the PCC, essentially the longer term cash flow planning, typically 30 years plus, to ensure the PCC can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using internal cash balances on a temporary basis. Debt previously borrowed may be restructured to meet PCC risk or cost objectives.

2.4 The PCC has delegated responsibility for treasury management decisions taken within the approved strategy to the PCC CFO. Day to day execution and administration of investment and borrowing decisions is undertaken by Specialist Accountants based in the Joint Finance Department for Suffolk and Norfolk Constabularies.

2.5 External treasury management services continue to be provided by Link Asset Services in a joint contract with the PCC for Suffolk. Link Asset Services provides a range of services which include:

- Technical support on treasury matters and capital finance issues.
- Economic and interest rate analysis.
- Debt services which includes advice on the timing of long term borrowing.
- Debt rescheduling advice surrounding the existing portfolio.
- Generic investment advice on interest rates, timing and investment instruments.
- Credit ratings/market information service for the three main credit rating agencies (Fitch, Moody's and Standard & Poors).

2.6 Whilst Link Asset Services provide support to the treasury function, under market rules and in accordance with the CIPFA Code of Practice, the final decision on treasury matters remains with the PCC.

2.7 Performance will continue to be monitored and reported to the PCC as part of the budget monitoring report.

3. Link Asset Services Economic Forecast

Economic Overview

3.1 **UK.** After the UK surprised on the upside with strong economic growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the Monetary Policy Committee, (MPC), meeting of 14 September 2017 managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.0% in both September and October so that might prove now to be the peak.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At Its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the contradiction within the Bank of England between action in 2016 and in 2017 by two of its committees. After the shock result of the EU referendum, the Monetary Policy Committee (MPC) voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was because the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the Financial Policy Committee (FPC) of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 -34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that some consumers may have over extended their borrowing and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

3.2 **Brexit Timetable / Process:**

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: initial two-year negotiation period on the terms of exit. In her Florence speech in September 2017, the Prime Minister proposed a two-year transitional period after March 2019.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will leave the single market and tariff free trade at different times during the two-year transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies

3.3 **Eurozone.** Economic growth in the Eurozone (EZ), (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.0% y/y), 0.7% in quarter 2 (2.3% y/y) and +0.6% in quarter 3 (2.5%

y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in October inflation was 1.4%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

3.4 **USA**. Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.0%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and three increases since December 2016; and there could be one more rate rise in 2017, which would then lift the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

3.5 **CHINA**. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

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

3.7 The following table gives Capita Asset Services central view of UK Base Rate and Public Works Loan Board (PWLB) borrowing rates:

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

4. Investment Strategy 2018/19

4.1 The Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

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

Financial Year	Budgeted Interest Earnings
2018/19	0.60%
2019/20	0.90%
2020/21	1.25%

4.3 There are 3 key considerations to the treasury management investment process. CLG's Investment Guidance ranks these in the following order of importance:

- security of principal invested,
- liquidity for cash flow, and
- investment return (yield).

Each deposit is considered in the context of these 3 factors, in that order.

4.4 CLG's Investment Guidance requires local authorities and PCCs to invest prudently and give priority to security and liquidity before yield, as described above. In order to facilitate this objective, the Guidance requires the PCC to have regard to CIPFA's Code of Practice for Treasury Management in the Public Sector.

4.5 The key requirements of both the Code and the Investment Guidance are to produce an Annual Investment and Treasury Strategy covering the following:

- Guidelines for choosing and placing investments – Counterparty Criteria and identification of the maximum period for which funds can be committed – Counterparty Monetary and Time Limits (Section 5).
- Details of Specified and Non-Specified investment types (Section 6).

5. Investment Strategy 2018/19 - Counterparty Criteria

5.1 The PCC works closely with its external treasury advisors to determine the criteria for high quality institutions.

5.2 The criteria for providing a pool of high quality investment counterparties for inclusion on the PCC's 'Approved Authorised Counterparty List' is provided below

(i) **UK Banks** which have the following minimum ratings from at least one of the three credit rating agencies:

UK Banks	**Fitch**	**Standard & Poors**	**Moody's**
Short Term Ratings	F1	A-1	P-1
Long Term Ratings	A-	A-	A3

(ii) **Non-UK Banks** domiciled in a country which has a minimum sovereign rating of AA+ and have the following minimum ratings from at least one of the credit rating agencies:

Non-UK Banks	**Fitch**	**Standard & Poors**	**Moody's**
Short Term Ratings	F1+	A-1+	P-1
Long Term Ratings	AA-	AA-	Aa3

- **Part Nationalised UK Banks –** Royal Bank of Scotland Group (including Nat West). These banks are included while they continue to be part nationalised or they meet the minimum rating criteria for UK Banks above.
- **The PCC's Corporate Banker –** If the credit ratings of the PCC's corporate banker (currently Barclays Bank plc) fall below the minimum criteria for UK Banks above, then cash balances held with that bank will be for account operation purposes only and balances will be minimised in terms of monetary size and time.
- **Building Societies –** The PCC will use Building Societies which meet the ratings for UK Banks outlined above.
- **Money Market Funds (MMFs) –** which are rated AAA by at least one of the three major rating agencies. MMF's are 'pooled funds' investing in high-quality, high-liquidity, short-term securities such as treasury bills, repurchase agreements and certificate of deposit. Funds offer a high degree of counterparty diversification that include both UK and Overseas Banks.
- **UK Government –** including the Debt Management Account Deposit Facility & Sterling Treasury Bills. Sterling Treasury Bills are short-term (up to six months) 'paper' issued by the UK Government. In the same way that the Government issues Gilts to meet long term funding requirements, Treasury Bills are used by Government to meet short term revenue obligations. They have the security of being issued by the UK Government.
- **Local Authorities, Parish Councils etc. –** Includes those in England and Wales (as defined in Section 23 of the Local Government Act 2003) or a similar body in Scotland or Northern Ireland.

5.3 All cash invested by the PCC in 2018/19 will be either Sterling deposits (including certificates of deposit) or Sterling Treasury Bills invested with banks and other institutions in accordance with the Approved Authorised Counterparty List.

5.4 The Code of Practice requires local authorities and PCCs to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for use, additional market information will be used to inform investment decisions. This additional market information includes, for example, Credit Default Swap rates and equity prices in order to compare the relative security of counterparties.

5.5 The current maximum lending limit of £10m for any counterparty will be maintained in 2018/19 to reflect the level of cash balances and to avoid large deposits with the DMO.

5.6 In addition to individual institutional lending limits, "Group Limits" will be used whereby the collective investment exposure of individual banks within the same banking group is restricted to a group lending limit of £10m.

5.7 The Strategy permits deposits beyond 365 days (up to a maximum of 2 years) but only with UK banks which meet the credit ratings at paragraph 5.2. Deposits may also be placed with UK Part Nationalised Banks and Local Authorities for periods of up to 2 years.

5.8 A reasonable amount will be held on an instant access basis in order for the PCC to meet any unexpected needs. Instant access accounts are also preferable during periods of credit risk uncertainty in the markets, allowing the PCC to immediately withdraw funds should any concern arise over a particular institution.

6. Investment Strategy 2018/19 – Specified and Non-Specified Investments

6.1 As determined by CLG's Investment Guidance, Specified Investments offer "high security and high liquidity". They are Sterling denominated and have a maturity of less than one year. Institutions of "high" credit quality are deemed to be Specified Investments. From the pool of high quality investment counterparties identified in Section 5, the following are deemed to be Specified Investments where the period of deposit is 365 days or less:

- Banks: UK and Non-UK;
- Part Nationalised UK Banks;
- The PCC's Corporate Banker (Barclays Bank plc)
- Building Societies (which meet the minimum ratings criteria for Banks);
- Money Market Funds;
- UK Government;
- Local Authorities, Parish Councils etc.

6.2 Non-Specified Investments are those investments that do not meet the criteria of Specified Investments. From the pool of counterparties identified in Section 5, they include:

- Any investment greater than 365 days.

6.3 The categorisation of 'Non-Specified' does not in any way detract from the credit quality of these institutions, but is merely a requirement of the Government's guidance.

6.4 The PCC's proposed Strategy for 2018/19 therefore includes both Specified and Non-Specified Investment institutions.

7. Borrowing Strategy 2018/19

7.1 Capital expenditure can be funded immediately by applying capital receipts, capital grants or revenue contributions. Capital expenditure in excess of available capital resources or revenue contributions will add to the PCC's borrowing requirement. The PCC's need to borrow is measured by the Capital Financial Requirement, which simply represents the total outstanding capital expenditure, which has not yet been funded from either capital or revenue resources.

7.2 For the PCC, borrowing principally relates to long term loans (i.e. loans in excess of 365 days). The borrowing strategy includes decisions on the timing of when further monies should be borrowed.

7.3 The main source of long term loans is the Public Works Loan Board (PWLB), which is part of the UK Debt Management Office (DMO). The maximum period for which loans can be advanced by the PWLB is 50 years.

7.4 External borrowing currently stands at £12.76m (excluding PFI). At 31 March 2017 there was a £24.1m Capital Financing Requirement (CFR) relating to unfunded capital expenditure which had been financed from internal resources. The CFR is estimated to be £29.9m at 31 March 2018, £34.0m at 31 March 2019 and £39.4m at 31 March 2020. Additional long term borrowing is estimated at £3.35 m for 2017/18, £7.80m for 2018/19 and £8.25m for 2019/20. The borrowing requirement does not include the funding requirement in respect of assets financed through PFI.

7.5 The challenging and uncertain economic outlook outlined by Link Asset Services in Section 3, together with managing the cost of “carrying debt” requires a flexible approach to borrowing. The PCC, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks identified in Link Asset Services economic overview (Section 3).

7.6 The level of outstanding debt and composition of debt, in terms of individual loans, is kept under review. The PWLB provides a facility to allow the restructure of debt, including premature repayment of loans, and encourages local authorities and PCCs to do so when circumstances permit. This can result in net savings in overall interest charges. The PCC CFO and Link Asset Services will monitor prevailing rates for any opportunities during the year. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt

7.7 The PCC has flexibility to borrow funds in the current year for use in future years, but will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement 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

7.8 The PCC will continue to use the most appropriate source of borrowing at the time of making application, including; the PWLB, commercial market loans, Local Authorities and the Municipal Bond Agency.

8. Treasury Management Prudential Indicators

8.1 There are four treasury related Prudential Indicators. The purpose of the indicators is to restrict the activity of the treasury function to within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these indicators are too restrictive, they will impair the opportunities to reduce costs/improve performance. The Indicators are:

- **Upper Limits on Variable Interest Rate Exposure** – This identifies a maximum limit for variable interest rates based upon the debt position net of investments. It is recommended that the PCC set an upper limit on its variable interest rate exposures for 2018/19, 2019/20 and 2020/21 of 100% of its net outstanding principal sums.

- **Upper Limits on Fixed Interest Rate Exposure** – Similar to the previous indicator, this covers a maximum limit on fixed interest rates. It is recommended that the PCC set an upper limit on its fixed interest rate exposures for 2018/19, 2019/20 and 2020/21 of 100% of its net outstanding principal sums.

- **Maturity Structures of Borrowing** – These gross limits are set to reduce the PCC's exposure to large fixed rate sums falling due for refinancing and require upper and lower limits. It is recommended that the PCC sets the following limits for the maturity structures of its borrowing at 31.3.18:

	Actual*	**Lower Limit**	**Upper Limit**
Under 12 months	0%	0%	15%
12 months and within 24 months	0%	0%	15%
24 months and within 5 years	7.8%	0%	45%
5 years and within 10 years	45.4%	0%	75%
10 years and above	46.8%	0%	100%

* Actual is based on existing balances at 31.12.17

- **Total Principal Funds Invested for Greater than 365 Days –** This limit is set with regard to the PCC's liquidity requirements. It is estimated that in 2018/19, the maximum level of PCC funds invested for periods greater than 365 days will be no more than £10m.

NB This Strategy Statement was endorsed by Norfolk Police Audit Committee at its meeting 9 January 2018.

Appendix I

MINIMUM REVENUE PROVISION STATEMENT 2018/19

Introduction

1. The PCC is required to make a charge against the revenue budget each year in respect of capital expenditure financed by borrowing or credit arrangement. The annual charge is set aside for the eventual repayment of the loan and is known as the Minimum Revenue Provision (MRP). This is separate from any annual interest charges that are incurred on borrowing.

2. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 amend the way in which MRP can be calculated so that each authority must consider what is “prudent”. The regulations are backed up by statutory guidance which gives advice on what might be considered prudent.

Options for Making Prudent Provision

3. Four options are included in the guidance, which are those likely to be most relevant for the majority of authorities. Although other approaches are not ruled out, authorities must demonstrate that they are fully consistent with the statutory duty to make prudent revenue provision.

   <u>Option 1 - Regulatory Method</u>
   Authorities may continue to use the formulae put in place by the previous regulations.

   <u>Option 2 - Capital Financing Requirement Method</u>
   This is a technical calculation based upon taking 4% of the level of outstanding debt as signified by the previous year’s balance sheet.

   <u>Option 3 – Asset Life Method</u>
   This is to make provision over the estimated life of the asset for which the borrowing is undertaken. This could be done by:

   (a) Charging MRP in equal instalments over the life of the asset
   (b) Charging MRP according to the flow of benefits from an asset where the benefits are expected to be different between years (CIPFA guidance is awaited for this methodology)

   <u>Option 4 - Depreciation</u>
   The asset is depreciated in accordance with standard accounting methods

4. The regulations make a distinction between capital expenditure incurred before 1 April 2008 and capital expenditure incurred from 1 April 2008 in terms of the options available.

5. Options 1 and 2 are to be used for capital expenditure incurred pre April 2008. Options 3 and 4 are to be used for Capital expenditure incurred post April 2008.

Recommendations

6. In order to avoid complexity and to spread the charge to the revenue budget over the life of the asset, it is recommended that for MRP purposes the PCC continues with the current approach, namely that:

   - Capital expenditure incurred before April 2008 is treated in accordance with option 1 of the regulatory guidance; and

   - Capital expenditure incurred from April 2008 is treated in accordance with option 3(a) of the regulatory guidance.

Appendix J

Option 1 - Norfolk PCC Precept 2018/19 – Council Tax Freeze

			£	
Budget Requirement			151,087,405	
Less Government Funding			87,192,814	
To be met from council tax (incl. surplus)			63,894,591	

Billing Authority	Taxbase	Precept Amount	Surplus on Collection Fund	Total Payments Due
		£	£	£
BRECKLAND	42,806	9,296,179	163,026	9,459,205
BROADLAND	45,735	9,932,270	(16,391)	9,915,879
GT. YARMOUTH	28,064	6,094,659	131,000	6,225,659
K.LYNN & W. NORFOLK	49,466	10,742,510	206,292	10,948,802
NORTH NORFOLK	39,844	8,652,921	202,229	8,855,150
CITY OF NORWICH	35,485	7,706,277	275,078	7,981,355
SOUTH NORFOLK	48,259	10,480,407	28,134	10,508,541
		62,905,224	989,368	63,894,591

Valuation Band	Council Tax 2018/19 £
A	144.78
B	168.91
C	193.04
D	217.17
E	265.43
F	313.69
G	361.95
H	434.34

(i) As in previous years instalment payments will be made to the PCC by the district councils on the day that they receive their government grant instalments. This will minimise the cash flow effect on the collection authorities.

(ii) Where a surplus on collection of 2017/18 council tax has been estimated, the District Council concerned will pay to the PCC its proportion of the sum by ten equal instalments, as an addition to the May 2018 to February 2019 precept payments.

(iii) Where a deficit on collection of 2017/18 council tax has been estimated, the District Council concerned will receive from the PCC its proportion of the sum by ten equal instalments, as a reduction to the May 2018 to February 2019 precept payments.

Appendix K

Option 2 - Norfolk PCC Precept 2018/19 – 1.99% increase in Council Tax

			£	
Budget Requirement			152,338,732	
Less Government Funding			87,192,814	
To be met from council tax (incl. surplus)			65,145,918	
Billing Authority	**Taxbase**	**Precept Amount**	**Surplus on Collection Fund**	**Total Payments Due**
		£	£	£
BRECKLAND	42,806	9,481,101	163,026	9,644,127
BROADLAND	45,735	10,129,845	(16,391)	10,113,454
GT. YARMOUTH	28,064	6,215,895	131,000	6,346,895
K.LYNN & W. NORFOLK	49,466	10,956,202	206,292	11,162,494
NORTH NORFOLK	39,844	8,825,048	202,229	9,027,277
CITY OF NORWICH	35,485	7,859,573	275,078	8,134,651
SOUTH NORFOLK	48,259	10,688,886	28,134	10,717,020
		64,156,551	989,368	65,145,918

Valuation Band	**Council Tax 2017/18 £**	**Council Tax 2018/19 £**	**Increase Year**	**Increase Week**
A	144.78	147.66	2.88	0.06
B	168.91	172.27	3.36	0.06
C	193.04	196.88	3.84	0.07
D	217.17	221.49	4.32	0.08
E	265.43	270.71	5.28	0.10
F	313.69	319.93	6.24	0.12
G	361.95	369.15	7.20	0.14
H	434.34	442.98	8.64	0.17

(i) As in previous years instalment payments will be made to the PCC by the district councils on the day that they receive their government grant instalments. This will minimise the cash flow effect on the collection authorities.

(ii) Where a surplus on collection of 2017/18 council tax has been estimated, the District Council concerned will pay to the PCC its proportion of the sum by ten equal instalments, as an addition to the May 2018 to February 2019 precept payments.

(iii) Where a deficit on collection of 2017/18 council tax has been estimated, the District Council concerned will receive from the PCC its proportion of the sum by ten equal instalments, as a reduction to the May 2018 to February 2019 precept payments.

Appendix L

Option 3 - Norfolk PCC Precept 2018/19 – 5.51% increase in Council Tax

		£	
Budget Requirement		154,554,622	
Less Government Funding		87,192,814	
To be met from council tax (incl. surplus)		67,361,808	

Billing Authority	Taxbase	Precept Amount	Surplus on Collection Fund	Total Payments Due
		£	£	£
BRECKLAND	42,806	9,808,567	163,026	9,971,593
BROADLAND	45,735	10,479,718	(16,391)	10,463,327
GT. YARMOUTH	28,064	6,430,585	131,000	6,561,585
K.LYNN & W. NORFOLK	49,466	11,334,616	206,292	11,540,908
NORTH NORFOLK	39,844	9,129,854	202,229	9,332,083
CITY OF NORWICH	35,485	8,131,033	275,078	8,406,111
SOUTH NORFOLK	48,259	11,058,067	28,134	11,086,201
	289,660	66,372,441	989,368	67,361,808

	Council Tax 2017/18	Council Tax 2018/19	Increase Year	Increase Week
	£	£	£	£
Vaulation Band				
A	144.78	152.76	7.98	0.15
B	168.91	178.22	9.31	0.18
C	193.04	203.68	10.64	0.20
D	217.17	229.14	11.97	0.23
E	265.43	280.06	14.63	0.28
F	313.69	330.98	17.29	0.33
G	361.95	381.90	19.95	0.38
H	434.34	458.28	23.94	0.46

(i) As in previous years instalment payments will be made to the PCC by the district councils on the day that they receive their government grant instalments. This will minimise the cash flow effect on the collection authorities.

(ii) Where a surplus on collection of 2017/18 council tax has been estimated, the District Council concerned will pay to the PCC its proportion of the sum by ten equal instalments, as an addition to the May 2018 to February 2019 precept payments.

(iii) Where a deficit on collection of 2017/18 council tax has been estimated, the District Council concerned will receive from the PCC its proportion of the sum by ten equal instalments, as a reduction to the May 2018 to February 2019 precept payments.