Durham Police & Crime Commissioner
Medium Term Financial Plan
2018/19 to 2021/22

Introduction

The prevailing national financial climate has transformed the way in which we perceive the delivery of public services. The Policing Service now has an imperative to evidence value for money and deliver a consistently high level of services with shrinking financial resources. The austerity measures are expected to continue until after 2020.

This plan demonstrates in financial terms how the Police Crime and Victims' Commissioner (PCVC) will strive to achieve his vision for policing in County Durham and Darlington. The plan provides an outline of the demands and consequential revenue resource requirements of the PCVC and Constabulary for the four financial years commencing 1st April 2018. The plan also details the proposed five year capital programme and the revenue consequences of that programme.

Durham Constabulary has embraced a corporate scorecard approach called "Plan on a Page". This strategic financial plan has been compiled in a way which reflects those strategic intentions and has been developed alongside the local Policing Plan.

The plan is owned by both the PCVC and Constabulary. Individual and collective responsibility is exercised over the management of performance and resources. Governance arrangements are in place to ensure that the PCVC holds the Constabulary to account through regular reporting of issues. Within the Constabulary, internal accountability meetings are regularly held to ensure objectives are met.

Purpose

The purpose of this financial planning document is to provide a basis for determining:

- The level of resources which are likely to be available in the future to deliver national and local priorities;
- The future demands upon the revenue budget;
- The impact of external factors;
- The financial implications of partnership working;
- The amount of capital investment which is required to achieve corporate objectives;
- The revenue consequences of such capital investment;
- The future reserve levels of the PCVC;

- The impact of additional demands on the level of council tax levied by the Police Crime and Victims' Commissioner;
- The main financial risks facing the PCVC and Constabulary.

Strategic Planning Principles

In constructing its financial plans the PCVC benefits from following the principles below:

- *Ensure that finance contributes to improved outcomes by ensuring finance follows priorities.*
- *To ensure overall financial stability.*
- *Set a comprehensive, timely, balanced and realistic budget;*
- *Take into account pay and price inflation, risk management, and achievability of savings targets;*
- *Follow its treasury management policy;*
- *Follow its reserves policy;*
- *Raise awareness of and communicate key financial messages both internally and externally;*

The medium term financial plan has been compiled following the established principles that have been adopted by the PCVC and within the following further conditions:

- *Budgets set will be affordable and not jeopardise the financial stability of the PCVC in either the short or long term;*
- *Precept increases will be kept to a minimum consistent with the provision of effective and efficient services;*
- *All spending plans will need to demonstrate that they can achieve value for money and support best value principles;*
- *Spending will be agreed only when the necessary funding is identified and approved;*
- *External funding will be sought wherever it can be used in a sustainable manner that does not lead to unforeseen costs to the PCVC;*
- *The PCVC's finances will be publicised to stakeholders in an open and transparent manner;*
- *Customers and citizens will be involved in the budget process.*

Revenue Expenditure

Police Service Funding

The final Local Government Finance Settlement, together with the Police Grant Report for 2018/19, was agreed by the House of Commons on 31 January 2018. Central funding for 2018/19 has been set at £84.668m, the same level as 2017/18. The table shows the anticipated central government funding in future years.

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Police Grant	42,112	42,112	42,112	42,112	42,112
DCLG General Grant	36,446	36,446	36,446	36,446	36,446
Legacy Council Tax Freeze Grants	6,110	6,110	6,110	6,110	6,110
Central Gov't Funding	**84,668**	**84,668**	**84,668**	**84,668**	**84,668**

As well as general grant, there will continue to be other specific grants.

Financial Planning Assumptions

The key income planning assumptions have been driven by funding announced in the provisional government figures and have been collated on a table and explained in detail in the previous section on police service funding.

The key expenditure related planning assumptions are reflected in the attached table

	Estimate 2018/19	Estimate 2019/20	Estimate 2020/21	Estimate 2021/22
Officer Pay Inflation (from September each year)	2%	2%	2%	2%
Officer Pension Contribution Increase	0%	1.9%	0%	0%
Staff Pay Inflation	2%	2%	2%	2%
Police Staff Pension Contribution Increase	0%	0%	2.4%	0%
Police Officer Vacancy Factor	0%	0%	0%	0%
Police Staff Vacancy Factor	2%	2%	2%	2%
Energy & Fuel Inflation	2%	2%	2%	2%
Other Non-Pay Inflation (except where contractually based)	0%	0%	0%	0%
Council Tax Increase Band D	£12	£12	1.98%	1.98%
Tax Base Growth	2%	2%	2%	2%
Other Income Inflation	0%	0%	0%	0%

Work Force Planning

The following table shows expected workforce numbers at the end of each financial year.

	Outturn 2017/18	Estimate 2018/19	Estimate 2019/20	Estimate 2020/21	Estimate 2021/22
Officers	1,160.0	1,140.0	1,140.0	1,140.0	1,140.0
PCSO's	158.0	152.0	152.0	152.0	152.0
Staff	849.5	861.7	861.7	861.7	861.7
Apprentices	32.0	56.0	56.0	56.0	56.0
PCVC	16.8	20.8	19.8	19.8	19.8
Total FTE	2,216.3	2,230.5	2,229.5	2,229.5	2,229.5

These figures are kept under continuous review.

This table considers the impact of all the income and revenue assumptions and identifies the Budget 2018/19 for approval.

Budget Heading	Outturn 2017/18	Estimate 2018/19	Estimate 2019/20	Estimate 2020/21	Estimate 2021/22
	£'000	£'000	£'000	£'000	£'001
Employees					
Police Officer Pay	60,700	61,484	62,660	63,279	65,314
Police Overtime	2,827	1,827	1,907	1,987	2,147
Police Staff Pay	32,535	33,541	34,465	35,249	35,977
Police Pensions	1,731	1,706	1,806	1,556	1,556
Other Employee Expenses	885	1,360	614	611	611
Total Employees	**98,678**	**99,918**	**101,452**	**102,682**	**105,605**
Premises	4,275	4,049	4,125	4,176	4,228
Transport Expenses	2,086	1,968	1,931	2,038	2,137
Supplies & Services					
Equipment	790	1,237	1,126	1,116	1,118
Stationery	230	250	250	250	250
Uniform	187	200	191	191	191
Doctors	1,422	1,411	1,411	1,411	1,411
Communications	1,668	1,608	1,639	1,900	1,911
Computing	2,822	2,804	2,623	3,133	3,143
Other Supplies	1,674	1,134	1,134	1,134	1,134
Total Supplies & Services	**8,793**	**8,644**	**8,374**	**9,135**	**9,158**
Air Support	639	760	760	760	760
Joint & Other Authorities	513	622	622	623	623
Forensic Science Services	828	920	920	920	920
less					
Income					
Customer & Client Receipts	(3,887)	(2,433)	(2,439)	(2,438)	(2,431)
Collaboration income	(1,000)	(791)	(791)	(791)	(791)
Secondment Income	(807)	(575)	(536)	(523)	(523)
Interest	(18)	(25)	(25)	(85)	(145)
Special Grants	(1,344)	(1,034)	(1,034)	(1,034)	(1,034)
plus					
Contribution To/ From (-) Reserve	0	0	0	0	0
Revenue contribution to capital	1,914	921	1,661	898	0
Capital Financing Costs	508	766	759	753	491
Police Constabulary Costs	111,178	113,710	115,779	117,114	118,998
Victims Commissioning Grant	(737)	(893)	(893)	(893)	(893)
Restorative Justice Grant	0	0	0	0	0
PCVC commissioning	1,173	1,739	1,839	1,839	1,839

Community Safety Grant	692	539	539	539	539
PCVC Costs	987	1,071	1,068	1,087	1,133
Net Expenditure	113,293	116,166	118,332	119,686	121,616
Funded by					
DCLG Grant	(36,446)	(36,446)	(36,446)	(36,446)	(36,446)
Police Grant	(42,112)	(42,112)	(42,112)	(42,112)	(42,112)
Council Tax Support Grant	(6,110)	(6,110)	(6,110)	(6,110)	(6,110)
Council Tax	(28,625)	(31,498)	(33,664)	(35,018)	(36,425)
	(113,293)	(116,166)	(118,332)	(119,686)	(121,093)
(Surplus) / Deficit	0	0	0	0	523

Comment:

- The latest HMIC Value for Money Profiles has been used to identify areas for potential efficiency savings.
- A detailed workforce plan has been produced which compliments this plan.

Scenario planning

While there is a balanced budget for 2018/19, 2019/20 and 2020/21, work is ongoing to balance 2021/22.

The Home Office still have plans to review the funding formula allocation between Forces in future years. Our understanding, based on previous exemplifications published in 2015, is that Durham could potentially lose up to £10m per annum from the changes. A separate report will be produced which outlines how such a potential funding reduction would be financed.

Capital Expenditure

The enclosed capital summary sets out proposed expenditure for capital projects for 2017/18 to 2021/22 and the associated funding options. The PCVC received £0.496m in 2017/18 and expects to receive the same in future years.

There are a number of options open to the PCVC to funding capital expenditure and these include capital receipts, use of reserves or revenue contributions to capital. The balance of funding would be generated from borrowing which would incur interest charges at prevailing market rates (unless the PCVC enters into specific term borrowing arrangements such as fixed interest rates over a fixed borrowing term).

The impact of capital receipts generated from the sale of land owned by the PCVC for development of commercial or housing purposes has been included in the funding. Capital receipts from the sale of the old HQ site are expected until 2019/20.

Revenue Impact of the Capital Programme

The PCVC can determine to meet part of the capital requirement through applying capital receipts, making revenue contributions, applying reserves, and/or (under the provisions of the Prudential Code) borrowing.

The associated future capital financing charges as a result of this provisional programme have been determined based upon the expected lifespan of the asset, generally as follows: Motor Vehicles (4 years); ICT Systems (5 years); ANPR and other Equipment (10 years); Minor Building Work (20 years); Major New Buildings (60 years).

Grant is applied to those assets with the shortest lifespan. The capital receipts arising from the sale of the police headquarters' site have been used to partly fund the capital programme from 2016/17 onwards.

The following table contains a summary of capital expenditure by asset category. The capital financing charge from 2017/18 to 2021/22 has been affected by the application of the strategic capital reserve in 2014/15 to shorter life assets over those years.

	Outturn 2017/18 £'000	**Estimate 2018/19 £'000**	**Estimate 2019/20 £'000**	**Estimate 2020/21 £'000**	**Estimate 2021/22 £'000**
Expenditure					
Buildings: Major works	555	250	0	0	0
Buildings: Minor Works	469	450	300	300	300
Buildings carry forward from prior year	0	234	0	0	0
Vehicles	1,008	950	1,100	1,000	1,000
Vehicle carry forward from prior year	0	279	0	0	0
ICT	2,860	2,022	2,520	1,880	1,750
ICT carry forward from prior year	0	1,691	0	0	0
Equipment	52	250	250	250	250
Total	**4,944**	**6,126**	**4,170**	**3,430**	**3,300**
Funding					
Capital Grant	1,380	496	496	496	496
Special Grant	796	0	637	0	0
Capital Receipts	324	4,709	1,376	2,036	2,804
Revenue Contribution	1,914	921	1,661	898	0
Strategic Reserve	0	0	0	0	0
Self-Financed Borrowing	530	0	0	0	0
Total	**4,944**	**6,126**	**4,170**	**3,430**	**3,300**
Capital Financing Costs					
Minimum Revenue Provision	494	496	489	482	221
Revenue Contribution	0	0	0	0	0
Contribution from Reserves	0	0	0	0	0
Interest Charges	275	270	270	270	270
Total	**769**	**766**	**759**	**752**	**491**

The most significant capital expenditure is explained over the next few paragraphs and a table showing detailed planned expenditure between 2017/18 and 2021/20 is included at the bottom of this section.

Estates

The primary focus for the Estates programme will be refurbishment of section offices and the resiting of the radio mast.

There will still be a regular buildings improvement and maintenance programme undertaken for the rest of the Estate.

Fleet

The fleet replacement programme is kept under constant review and it is planned to spend a relatively consistent figure each year on vehicles.

ICT

The ICT Strategy outlines the capital schemes to be delivered over the period covered by the plan. A large proportion of the ICT expenditure in the capital programme relates to infrastructure technology refresh. Another key scheme is the national requirement for all Forces to upgrade their emergency services communications.

The following table includes details of new capital expenditure by asset category.

Planned Capital Expenditure from 2017/18 to 2021/22					
	Outturn 2017/18	**Estimate 2018/19**	**Estimate 2019/20**	**Estimate 2020/21**	**Estimate 2021/22**
Property capital carry forward from prior year		**234**			
Major Works Projects					
New NERSOU building	530				
Mast relocation	25	250			
Sub total	**555**	**250**	**0**	**0**	**0**
Minor Works Projects					
Sundry Schemes	119				
CLS court building	105				
Section offices improvements		300	150	150	150
Accommodation Improvements	112	50	50	50	50
Legislative Compliance	133	100	100	100	100
Sub total	**469**	**450**	**300**	**300**	**300**
Motor Vehicles	**1,008**	**950**	**1,100**	**1,000**	**1,000**
Motor Vehicles carry forward from prior year	**0**	**279**	**0**	**0**	**0**
ICT Capital carry forward from prior year		**1,691**			
National Requirements					
ESMCP	130		800	50	

Planned Capital Expenditure from 2017/18 to 2021/22					
CAID upgrade/replacement		75			
National ANPR NAS	20				
Productivity Services		125		100	
Cloud First Development		50			
Infrastructure Technology Refresh					
Desktop security		50			
DIU network replacement		540			
Server & Storage Replacement	100	75	75	75	75
IL4 confidential network upgrade		125			
SAN storage				800	
ANPR infrastructure	20	82	18		50
ANPR mobile computers/video		175			
LAN Switch Refresh	55		150		
WAN Hardware	565				
GDPR backup archiving and retention		200			
Review Fibre Tape Libraries					
Projector Review/Replace	10	10	50		
Public service network					
ICT training facility	29				
Remote access infrastructure			200		
Web email security improvements		75			
Wireless upgrade				75	
Telephone system replacement			75	500	500
SIP telephone delivery					75
Non attributable network upgrade				150	
Digital Evidence					
Central 999 Recorders			50		
Custody CCTV replacement	25				375
Digital Evidence Management System		200			
Digital Evidence Storage/Archive	243				
CCTV Security Camera replacement		20			
Mobile Working					
Mobile Data	35				
Expand Video Conferencing			80		
Client devices					
Body camera replacement	430				375
NIT Phone replacement			22		
Mobile data device replacement			165		
CCTV editing & recording work stations		20			
Regional Collaboration					
NERSOU ICT	84				
Business Applications					
Red Sigma	166				

Planned Capital Expenditure from 2017/18 to 2021/22					
Microsoft Licence Arrangements	100				
Police Works	30	50	85		
GIS Upgrade	141	35			
IT Service Management System	11				150
CoreVet Enhancements		10			
Special branch network	25				
Pegasus Upgrade/replacement		25			200
Vetting application	11				
Pension system	35				
Locard replacement		50			
Agresso upgrade		30		30	
PAM sharing portal		110	70	70	
Telephone download equipment	70				
Website upgrade		100			
ERDMS	25				
OCGM	500				
Origin / DMS			750		
Sub total	**2,860**	**2,232**	**2,590**	**1,850**	**1,800**
Equipment	**52**	**250**	**250**	**250**	**250**
Grand Total	**4,944**	**6,057**	**4,240**	**3,400**	**3,350**

Key Risks

The following are the key risks contained within the plan

Risk	Mitigating Action	Person Responsible
Loss of funding due to reallocation between Forces	• Workforce planning to reduce officer/staff numbers • Cost reduction plans to be developed and implemented • Maximise precept income	• PCVC Chief Finance Officer
An ageing estate portfolio putting increased pressure on facilities management budgets	• Agree and deliver capital programme time • Effective project planning	• PCVC Chief Finance Officer / PCVC
Police officer capacity to respond to service demands	• Allocating resource to priority activities • Deliver agreed training programme. • Productivity measurement and management	• Commanders/Exec

Risk	Mitigating Action	Person Responsible
	• Strategic Assessment agreed and implemented	
Flexibility to move police resources to areas of need	• Plan on a page promulgated across the organisation • Regular Force threat and risk meetings • Update workforce plan • Targeted reviews to be carried out	• Force Executive / Tasking & Coordination
Demand continues to rise	• Introduction of new Strategic Demand Management Command • On-going crime prevention/detection and problem solving initiatives. • Productivity measurement and management • Deliver agreed training programme • New shift pattern introduced for officers and PCSOs	• Heads of Commands
Collaboration may require up-front costs of change	• Identify 'invest to save' budget/reserve	• PCVC Chief Finance Officer/Exec/PCVC

Monitoring and Review

This financial plan will be subject to continuous review and forms part of the overall planning processes within the PCVC and Constabulary. This will ensure that an accurate future financial forecast is maintained to give an indication as to the affordability of spending plans which in turn will be fed into the corporate planning process.

The content of this plan will be kept under review as part of normal medium term financial planning procedures.

PRUDENTIAL CODE

Background

1. The framework of the prudential capital finance system, which came into effect from 1st April 2004, is contained in the Local Government Act 2003. Under the Act, Government borrowing controls based on "credit approvals" were abolished with effect from 1st April 2004. The PCVC is now free to borrow and take out leases without Government consent, provided these commitments can be afforded. The Prudential Code is designed to guide the PCVC's decision on what can be afforded. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 specifies the Prudential Code for Capital Finance in Local Authorities, issued by CIPFA, as the code of practice to which local authorities must have regard when setting and reviewing their affordable borrowing limit.

2. The key objectives of the Prudential Code are to ensure that within a clear framework the capital investment plans of the PCVC are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.

3. To demonstrate that the above objectives have been fulfilled the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account. The Code does not include limits; these are for the PCVC to set.

4. Previously, credit approvals from Central Government set the limit of a local authority's long-term borrowing and attracted Revenue Support Grant (RSG) towards the financing costs of loans (interest and repayment of principal). Under the current system, unless, exceptionally, a national limit is imposed, the PCVC is free to make his own borrowing decisions according to what can be afforded. Concerning borrowing up to 2010/11, Central Government support for borrowing through Formula Grant was given on the basis of a named amount of capital expenditure which borrowing will support. With effect from 2011/12 the Government determined that no new supported borrowing allocations would be made in the Spending Review period. Government support is now given in the form of capital grant only. The PCC will take the totality of Central Government support into account in setting prudential limits.

Prudential Indicators

5. The capital expenditure estimates to be incurred for the current and future years are outlined below:

	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000
Expenditure	4,944	6,126	4,170	3,430	3,300

6. Estimates of the ratio of financing costs to net revenue stream for the current and future years are:

Ratio of Financing Costs to Net Revenue Stream	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20	Estimate 2020/21	Estimate 2021/22
	%	%	%	%	%
	0.68%	0.66%	0.64%	0.42%	0.62%
Financing Costs (£'000)	769	766	759	497	746
Net Revenue Stream (£'000)	113,293	116,166	118,332	119,686	121,093

The indicator takes into account minimum revenue provision and any contributions from reserves. The net revenue stream is the amount raised from local taxation and non-specific grant income.

7. Estimates of the current and future years Capital Financing Requirement are:

Capital Financing Requirement	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000
	18,634	18,138	17,649	17,422	16,946

The Capital Financing Requirement measures the underlying need to borrow for a capital purpose. The PCVC has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The PCVC's treasury management strategy and annual plan for 2018/19 is part of this Section (see paragraph 21 onwards).

The PCVC has at any point in time a number of cash flows both positive and negative, and manages the treasury position in terms of borrowings and investments in accordance with the approved treasury management strategy. In day-to-day cash management no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions and not simply those arising from capital spending. In contrast the Capital Financing Requirement reflects the PCVC's underlying need to borrow for a capital purpose.

8. CIPFA's Prudential Code for Capital Finance includes the following as a key indicator of prudence:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose the PCVC should ensure that gross 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."

Minimum Revenue Provision (MRP) Statement

9. Previously local authorities were required to set aside some of their revenue as provision for repayment of debt. MRP was calculated each year subject to a minimum of 4% of capital financing requirement at the start of the year.

10. These rules have been replaced with a duty for an authority to provide for an amount of MRP which is considered to be "prudent". CLG has issued guidance on MRP. The regulations do not define "prudent provision".

11. The guidance explains that the broad aim of prudent provision is to ensure that debt is repaid over a period that is reasonably close to the time over which the capital expenditure will provide benefits. In the case of borrowing supported by Government through the Formula Grant system, it would be reasonable to link the period of making provision of the grant, which is 4% of the estimated supported capital expenditure and 4% equates to the repayment of debt over 25 years.

12. MRP should normally start in the financial year following the one in which the expenditure was incurred.

13. The Secretary of State recommends that a Statement of Methodology to be used by authorities be approved by the PCVC before the start of each financial year.

14. The PCVC has agreed that when determining the minimum revenue provision:

a. **Option 2: CFR Method (MRP is equal to 4% of the non-housing capital finance requirement at the end of the preceding financial year) is used in relation to all capital expenditure before 1st April 2008, but only for capital expenditure financed by supported borrowing during 1st April 2008 to 31st March 2011.**

b. **Option 3: Asset Life Method (MRP is based on the life of the asset) is used for capital expenditure financed by unsupported borrowing after 1st April 2008.**

External Debt

15. In respect of external debt, it is recommended that the PCVC approves the following Authorised Limits for total external debt, gross of investments, for the next three financial years. These limits separately identify borrowing from other long-term liabilities such as finance leases. The limits are consistent with the capital financing requirement.

Authorised Limits	**Estimate 2017/18 £'m**	**Estimate 2018/19 £'m**	**Estimate 2019/20 £'m**	**Estimate 2020/21 £'m**	**Estimate 2021/22 £'m**
Borrowing	23.6	23.1	22.6	22.4	21.9
Long term Liabilities	0.0	0.0	0.0	0.0	0.0
Total	23.6	23.1	22.6	22.4	21.9

16. The Authorised Limits are consistent with the PCVC’s current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with the approved Treasury Management policy statement and practices. They are based on the estimate of most likely, prudent but not worst-case scenario, with the addition of sufficient headroom over and above this to allow for operational management. An assessment of risk has been taken into account, as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cash flow requirements.

17. The proposed Operational Boundary for external debt is based on the same estimates as the Authorised Limit but reflects directly the PCVC Chief Finance Officer’s estimate of the most likely prudent but not worst case scenario, without the additional headroom included within the Authorised Limit. The Operational Boundary represents a key management tool for in year monitoring by the PCVC Chief Finance Officer. Within the Operational Boundary, figures for borrowing and other long-term liabilities are separately identified.

Operational Boundary for External Debt	**Estimate 2017/18 £'m**	**Estimate 2018/19 £'m**	**Estimate 2019/20 £'m**	**Estimate 2020/21 £'m**	**Estimate 2021/22 £'m**
Borrowing	18.6	18.1	17.6	17.4	16.9
Long term Liabilities	0.0	0.0	0.0	0.0	0.0
Total	18.6	18.1	17.6	17.4	16.9

Council Tax

18. The Prudential Indicators have been calculated assuming a £12 increase in 2018/19 and 2019/20 and 1.98% for 2020/21 and beyond.

19. The capital programme is funded by a mix of capital grants, contributions from earmarked reserves and borrowing under the prudential code.

20. The estimate of the incremental impact of this prudential borrowing, over and above capital investment decisions that have previously been taken by the Authority for Band D Council Tax, are:

Incremental Impact on Band D Council Tax	**Estimate 2017/18**	**Estimate 2018/19**	**Estimate 2019/20**
	%	**%**	**%**
	0.02%	0.00%	0.00%

Treasury Management

21. The CIPFA Code of Practice for Treasury Management in the Public Services makes the following key recommendations:

(i) Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

(ii) Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities.

(iii) They should acknowledge that the pursuit of best value in treasury management and the use of suitable performance measures are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

22. The PCVC has formally adopted the key recommendations of the CIPFA Code of Practice for Treasury Management in the Public Services and has created and maintains as the cornerstone for effective treasury management:

    a. A treasury management policy statement stating the policies and objectives of its treasury management activities
    b. Suitable treasury management practices (TMPs), setting out the manner in which the PCC will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

23. Reports will be presented to the PCVC on the treasury management policies, practices and activities, including an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in the TMPs. In implementing this strategy the PCVC will give priority to security and liquidity rather than yield. However the PCVC will aim to achieve the highest rate of interest consistent with proper levels of security and liquidity. In particular attention is drawn to the key objectives of the Investment Strategy which is firstly safeguarding the repayment of principal and interest of its investments on time and secondly ensuring adequate liquidity. The investment return is the third objective. The PCVC delegates responsibility for the execution and administration of its treasury management policies and practices to the PCVC Chief Finance Officer, who will act in accordance with the Policy Statement, Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management.

Treasury Management Indicators

24. The PCVC has set an upper limit on its fixed interest rate exposures for 2017/18, 2018/19 and 2019/20 of 100% of its net outstanding principal sum.

25. The PCVC has further set an upper limit on its variable interest rate exposures for 2017/18, 2018/19 and 2019/20 of 30% of its net outstanding principal sums.

26. The PCVC's upper and lower limits for the maturity structure of its borrowings are as follows.

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate:	Upper Limit	Lower Limit
	%	%
Under 12 months	50	0
12 months and within 24 months	50	0
24 month and within 5 years	50	0
5 years and within 10 years	50	0
10 years and above	100	0

27. The PCVC does not intend to invest sums for periods longer than 364 days. This is seen as prudent interest rate risk management.

28. **The PCVC has agreed to**

    a. **Note the prudential indicators,**

    b. **Approve the Minimum Revenue Provision (MRP) Statement in Appendix 2 (paragraphs 9 to14) of this report,**

    c. **Determine an Authorised Limit of £23.1m and an Operational Boundary Limit of £18.1m for external debt in 2018/19.**

    d. **Reaffirm the adoption of the key recommendations of the CIPFA Code as detailed in paragraph 21 of this report.**

    e. **Set an upper limit on the fixed interest rate exposures for 2017/18, 2018/19 and 2019/20 of 50% of the net outstanding principal sum.**

    f. **Set an upper limit on the variable interest rate exposures for 2017/18, 2018/19 and 2019/20 of 30% of its net outstanding principal sums.**

Treasury Management Policy Statement

1. The PCVC defines the treasury management activities as:

   "The management of the organisation's 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".

2. The PCVC 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 organisation.

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

Treasury Management Practices

1. TMP1 – Treasury Risk Management

1.1. *The PCVC Chief Finance Officer shall:*

- Design, implement and monitor all arrangements for the identification, management and control of the treasury management risks shown below;
- Report at least annually on the adequacy/suitability thereof; and
- Report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the PCVC's objectives in this respect, all in accordance with the procedures set out in **TMP6** *Reporting requirements and management information arrangements.*

1.2. *Liquidity*

The PCVC will ensure adequate but not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable at all times to have the level of funds available which are necessary for the achievement of service objectives.

1.3. *Interest Rates*

The PCVC will manage exposure to fluctuations in interest rates with a view to containment of net interest costs, or securing interest revenues, in accordance with the amounts provided in the Revenue Estimates in accordance with **TMP6** *Reporting requirement and management information arrangement.*

1.4. *Credit and Counterparties*

The PCVC regards a prime objective of the treasury management activities to be the security of the principal sums invested. A formal counterparty list will be maintained and the named organisations and limits will reflect a prudent attitude towards organisations with which funds may be deposited, and will limit the PCVC's investment activities to the instruments, methods and techniques referred to in **TMP4** *Approved Instruments, methods and techniques*.

1.5. *Re-scheduling and Re-financing of Debt*

The PCVC will ensure that all borrowing, private financing and partnership arrangements will be negotiated, structured and documented, and the maturity profile of debt will be managed with a view to obtaining terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

Relationships with counterparties in these transactions will be managed in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

1.6. *Legal and Regulatory*

The PCVC will ensure that all treasury management activities comply with its statutory powers and regulatory requirements. The PCVC will demonstrate such compliance, if required to do so, to all parties with whom he deals in such activities. In framing the credit and counterparty policy under **TMP1** *Treasury Risk Management,* the PCVC will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions effected with the organisation, particularly with regard to duty of care and fees charged.

The PCVC will seek to minimise the impact of future legislative or regulatory changes on treasury management activities so far as it is reasonably able to do so.

1.7. *Fraud, Error and Corruption, and Contingency Management*

The PCVC will seek to ensure that the circumstances which may expose the PCVC to the risk of loss through fraud, corruption or other eventualities in his treasury management dealings are identified. Accordingly, he will design and implement suitable systems and procedures and will maintain effective contingency management arrangements to counter such risks.

1.8. *Market Risk*

The PCVC will seek to ensure that stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums invested.

2. TMP2 - BEST VALUE AND PERFORMANCE MEASUREMENT

2.1. The PCC will actively work to promote best value in treasury management activities. The treasury management function will be the subject of regular reviews to identify scope for improvement.

3. TMP3 - DECISION-MAKING AND ANALYSIS

3.1. The PCVC will maintain full records of treasury management decisions, and of the processes and practices applied in reaching those decisions to demonstrate that reasonable steps have been taken to ensure that all issues relevant to those decisions were taken into account.

4. TMP4 - APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1. The PCVC will undertake treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Strategy.

5. TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

5.1. The PCVC's treasury management activities will be properly structured in a clear and open fashion and a rigorous discipline of segregation of duties will be enforced to ensure effective control and monitoring of treasury management activities for the reduction of the risk of fraud or error and for the pursuit of optimum performance.

5.2. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

5.3. If and when the PCVC intends, as a result of lack of resources or other circumstances, to depart from these principles, the PCVC Chief Finance Officer will ensure that the reasons are properly reported in accordance with **TMP6** *Reporting requirements and management information arrangements,* and the implications properly considered and evaluated.

5.4. The PCVC Chief Finance Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover.

5.5. The PCVC Chief Finance Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

5.6. The PCVC Chief Finance Officer will fulfil all delegated responsibilities in respect of treasury management in accordance with the PCVC's Treasury Management Policy Statement, Treasury Management Practices and the CIPFA Standard of Professional Practice on Treasury Management.

6. TMP6 - REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1. Regular reports will be prepared for consideration by the PCVC on:

- The implementation of the treasury management policies;
- The effects of decisions taken and the transactions executed in pursuit of those policies;
- The implications of changes resulting from regulatory, economic, market or other factors affecting treasury management activities; and the performance of the treasury management function.

6.2. As a minimum, the PCVC will receive:

- An Annual Report on the strategy and plan to be pursued in the forthcoming year;
- A half yearly report providing an update on treasury management activities (PCVC borrowing and investments and a national economic forecasts);
- An Annual Report on the performance of the treasury management functions in the previous year and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and Treasury Management Practices.

7. TMP7 - BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1. The PCVC will account for treasury management activities in accordance with appropriate accounting practices and standards and with statutory and regulatory requirements.

7.2. The PCVC will ensure that his auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles and that such information and papers demonstrate compliance with external and internal policies and approved practices.

8. TMP8 - CASH AND CASH FLOW MANAGEMENT

8.1. All PCVC monies shall be aggregated for treasury management purposes and will be under the control of the PCVC Chief Finance Officer. Cash flow projections will be prepared on a regular and timely basis and the PCVC Chief Finance Officer will ensure that these are adequate for the purposes of monitoring compliance with **TMP1.2** Liquidity.

9. TMP 9 - MONEY LAUNDERING

9.1. Procedures will be enforced for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this area is properly trained.

10. TMP 10 - STAFF TRAINING AND QUALIFICATIONS

10.1. The PCVC will seek to appoint individuals to the treasury management function who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The PCVC Chief Finance Officer will recommend and implement the necessary arrangements.

11. TMP 11 - USE OF EXTERNAL SERVICE PROVIDERS

11.1. When external service providers are employed by the PCVC, the PCC Chief Finance Officer will ensure that this is done for reasons which have been submitted to a full evaluation of the costs and benefits. The terms of their appointment and the methods by which service providers' value will be assessed will be properly agreed and documented, and subjected to regular review.

11.2. Where feasible and necessary, a spread of service providers will be used to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, PCVC Procedural Rules and Financial Regulations plus legislative requirements will always be observed. The monitoring of such arrangements rests with the PCVC Chief Finance Officer.

12. TMP 12 - CORPORATE GOVERNANCE

12.1. The PCVC is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

12.2. The PCVC has adopted and implemented the key recommendations of the Code of Practice on Treasury Management in the Public Services. This, together with other arrangements that the PCVC Chief Finance Officer will put in place, is considered vital to the achievement of proper corporate governance in treasury management, and the PCVC Chief Finance Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Treasury Management Strategy 2018/19

In implementing this strategy, the PCVC will give priority to security and liquidity, rather than yield. However, the PCVC will aim to achieve the highest rate of interest consistent with the proper levels of security and liquidity. In order to achieve this, the strategy deals with the use of specified investments, non-specified investments and the liquidity of investments.

The strategy also covers the PCVC's approach to borrowing and the use of external managers.

1) Borrowing Strategy 2018/19

The uncertainty over future interest rates increases the risks associated with treasury activity. As a result, the PCVC will take a cautious approach to its treasury strategy.

Long-term fixed interest rates are at risk of being higher over the medium term, and short term rates are expected to rise, although more modestly. The PCVC Chief Finance Officer, 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 shown in the forecast above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short/medium term.

Continuing to postpone borrowing and running down investment balances will also be considered. This would reduce counterparty risk and hedge against the expected fall in investments returns.

2) Investment Strategy 2018/19

a) Key Objectives

i) The primary objectives of the PCVC's investment strategy are firstly safeguarding the repayment of the principal and interest of investments on time and secondly ensuring adequate liquidity. The investment return is the third objective. With the current economic background the current investment climate has one over-riding risk consideration; that of counterparty security risk.

b) Risk Benchmarking

i) Yield benchmarks are currently widely used to assess investment performance.

ii) These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the Annual Report.

iii) Security: The PCVC's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is 0.03% historic risk of default when compared to the whole portfolio (based on the credit rating of the institutions that the PCVC invests with; the length of time of the investments; and the historical rate of default of similar rated counterparties). This rate is provided by our treasury management advisors and the rate of 0.03 is considered extremely low risk.

iv) Liquidity: In respect of this area, the PCVC seeks to maintain:

(1) Bank overdraft of £0.5m,
(2) Liquid short term deposits of at least £2.0m available with a week's notice,
(3) Weighted Average Life benchmark is expected to be 0.25 years (3 months), with a maximum of 0.5 years (6 months).

v) Yield: Local measure of yield benchmarks is:

(1) Investments - Internal returns above the 7 day London Interbank Bid Rate (LIBID) and as a guide the current rate of LIBID is 0.48% (as at January 2018).

c) Investment Counterparty Selection Criteria

i) The primary principle governing the PCVC's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the PCVC will ensure:

(1) Maintenance of a policy that covers both the categories of investment types to be invested in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

(2) Sufficient liquidity in investments and for this purpose will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the PCC's prudential indicators covering the maximum principal sums invested.

ii) The PCVC Chief Finance Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the PCVC for approval as necessary. These criteria are separate to those which choose Specified and Non-Specified investments, as they provide an overall pool of counterparties considered high quality that the PCVC may use, as opposed to defining what the investments are.

iii) The rating criteria use the ***lowest common denominator*** method of selecting counterparties and applying limits. This means that the application of the PCVC's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the PCVC's criteria, the other does not, the institution will fall outside of the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

iv) Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to counterparty at the minimum PCVC criteria will be suspended from use, with all others being reviewed in light of market conditions.

d) Specified Investments

i) Specified Investments are defined as those satisfying the following conditions:
  (1) Denominated in sterling,
  (2) To be repaid or redeemed within 12 months of the date on which the investment was made,
  (3) Do not involve the acquisition of share capital or loan capital in a body corporate,
  (4) Are made with the UK Government, local authorities, parish councils, community councils, or with a body or in an investment scheme which has been awarded a high credit rating by a credit agency.

ii) The criteria for providing a pool of high quality investment counterparties are:

  (1) Banks 1 - Good Credit Quality

  The PCVC will only use banks which:
  (a) Are UK banks
  (b) And have, as a minimum, the following Fitch, Moody's and Standard & Poors credit ratings (where rated):
    (i) Short Term: F1
    (ii) Long Term: A-

  (2) Banks 2 - Guaranteed Banks with suitable Sovereign Support

  (a) In addition, the PCVC will use banks whose ratings fall below the criteria specified above if all of the following conditions are met:
  (b) Part nationalised UK banks- Royal Bank of Scotland
  (c) These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

(3) **Banks 3 - The PCVC's own banker** for transactional purposes if the bank falls below the above criteria although in this case balances will be minimised in both monetary size and time.

(4) **Building Societies**

(a) The PCVC will use all Societies which meet the ratings for banks outlined above.

(5) **Money Market Funds:** AAA

(6) **UK Government** (including gilts and the Debt Management Account Deposit Facility (DMADF))

(7) **Other Local Authorities, Parish Councils** etc.

e) Non - Specified Investments

i) Non-Specified investments are those not meeting the definition in the Specified Investments section above. It is proposed that during 2016/17, the PCVC will <u>not</u> invest in Non-Specified Investments, including those to be repaid or redeemed more than 12 months from the date on which the investment was made.

f) Use of additional information other than credit ratings

i) Additional requirements under the Code of Practice now require the PCVC 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 officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example credit default swaps, negative rating watches/ outlooks) will be applied to compare the relative security of differing investment counterparties.

g) Time and Monetary Limits applying to Investments

i) The time and monetary limits for institutions on the PCVC's Counterparty List are as follows:

	Long term Rating)	**Money Limit**	**Time Limit**
Banks 1 category high quality	AA	£5m	1 year
Lloyds Bank	A	£5m	1 year
Banks 1 category medium quality	A-	£5m	3 months
Banks 2 category-part nationalised	N/A	£5m	1 year
DMADF	AA+	Unlimited	6 months

Local Authorities	N/A	£5m	1 year
Money market funds	AAA	£3m per fund	Liquid

ii) Due to the uncertainty in the financial markets it is recommended that the Investment Strategy is approved on a similar approach to previous years which will provide officers with the flexibility to deal with any unexpected occurrences. Officers will restrict the pool of available counterparties from these criteria to safer instruments and institutions. Currently this involves the use of the DMADF, AAA rated Money Market Funds and institutions with higher credit ratings than those outlined in the investment strategy or which are provided support from the Government. Investments are being maintained short term to also improve the security of investments.

h)Sensitivity to Interest Rate Movements

i) Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified.

ii) The estimated impact of a 1% increase in interest rates to the estimated treasury management income for the PCVC in 2018/19 is an increase of £20,000. A decrease in interest rates is unlikely and any impact would not be material.

3) External Managers (Other than those relating to the Pension Fund)

i) The PCVC may, upon the recommendations of the PCVC Chief Finance Officer, appoint one or more external managers to manage the short-term investment of surplus PCVC money. Any such managers appointed are to be bound by this Treasury Management Policy Statement.

Purpose of Report

1. The purpose of this report is to provide the Police Crime and Victims' Commissioner (PCVC) with reassurance and confidence in the accuracy and quality of the financial estimates for the years 2017/18 to 2021/22, and more importantly the budget for the coming financial year 2018/19.
2. The robustness of the financial estimates considers important factors such as risks facing the PCVC and the adequacy of financial reserves to enable the PCVC to have flexibility in dealing with any unplanned events that may have a significant financial consequence during the course of the budget year 2018/19.

Background

3. Police Crime and Victims' Commissioner and local authorities decide every year how much they are going to raise from council tax. They base their decision on a budget that sets out estimates of what they plan to spend on each of their services.
4. The decision on the level of the council tax must be taken before the coming financial year begins and that level cannot be changed during the year, so allowances for risks and uncertainties that may create an increase in service costs or a loss of income must be made by:
    a. Making realistic and prudent allowances in the financial estimates for the policing services provided, and also,
    b. Ensuring that there are adequate reserves in place that can be drawn on to help manage the impact of any incident or eventuality that causes the PCVC to exceed the budget estimates in 2018/19 for the delivery of policing services to the community of County Durham and Darlington.
5. Section 25 of the Local Government Act 2003 requires that the PCVC's Chief Financial Officer reports to the PCVC when considering the budget and council tax on the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that the PCVC will have authoritative advice available to him prior to making the budget setting decisions.
6. Section 25 also requires the PCVC to consider this report when making decisions about the budget.

Critical Role of Risk Management

7. There is considerable (continuous) attention given to the risks facing the delivery of policing services in County Durham and Darlington. Each of the risks identified by the Force is allocated to and formally assessed by a strategic programme board.
8. When each board meets the risk registers are modified to reflect new risks, or to reflect the best available information and the impact of mitigating actions. The list of risks below have already been identified and considered by the appropriate board.

9. In setting the budget the risks facing the PCVC are influenced by the uncertainties of the economic environment and the level of expenditure reductions in the Policing Service and the wider public sector, all of which present difficulties in delivering a balanced budget. The key risks have been identified in the Budget report.

10. The Annual Governance Statement gives assurance in relation to the organisation's arrangements for the management of risk and ensuring proper arrangements are in place for governing its affairs and looking after the resources at its disposal.

Robustness of Estimates

11. The budget process has involved the senior leadership teams in each Command, who have considered and evaluated a variety of service delivery options that balance the twin needs of maintaining service delivery and balancing the budget.

12. These options, identifying areas where savings can be made to provide the resources to fund the unavoidable service pressures, have been reported to the PCVC and his Executive, which includes the Chief Constable and the PCVC's Chief Financial Officer.

13. The key income and expenditure related planning assumptions are reflected in the attached table

	Estimate 2018/19	**Estimate 2019/20**	**Estimate 2020/21**	**Estimate 2021/22**
Officer Pay Inflation (from September each year)	2%	2%	2%	2%
Officer Pension Contribution Increase	0%	1.9%	0%	0%
Staff Pay Inflation	2%	2%	2%	2%
Police Staff Pension Contribution Increase	0%	0%	2.4%	0%
Police Officer Vacancy Factor	0%	0%	0%	0%
Police Staff Vacancy Factor	2%	2%	2%	2%
Energy & Fuel Inflation	2%	2%	2%	2%
Other Non-Pay Inflation (except where contractually based)	0%	0%	0%	0%
Council Tax Increase Band D	£12	£12	1.98%	1.98%
Tax Base Growth	2%	2%	2%	2%
Other Income Inflation	0%	0%	0%	0%

14. In relation to the robustness of the above table, the following should be noted:
    - Pay inflation. A pay increase of 1% plus an additional 1% non-consolidated has been offered. Therefore the assumption within the budget is reasonable. All police officer posts are budgeted for, therefore the police office pay budget should not be overspent given that the force maintains a separate budget to fund medical retirements. In respect of police staff pay, a small vacancy factor is built in to the pay budget to reflect

anticipated leavers during the year. In recent years neither the police officer pay budget nor police staff pay budget have been overspent.

- Pension increases. It is anticipated that both officers and staff pension rates will increase at the next triennial valuation. The latest estimates have been used.
- Energy and Fuel. Work is ongoing to reduce the number of vehicles within the force which will help to reduce the overall fuel budget. Therefore the 2% inflationary increase expected for fuel is reasonable. In relation to energy, the force maintains a £20,000 energy efficiency budget with which to reduce energy costs. Again, this budget is considered reasonable.
- Other non-pay Inflation. The 0% increase is a general provision. Whilst some budgets are reducing in price as a result of improved procurement and reduced demand it is equally valid to state that some budgets are under constant cost pressure. In recent years, supplies and services budgets have been underspent within the force.
- Council Tax. This will be subject to the maximum permitted limit by Central Government.
- Tax Base Growth. This has been based on recent growth rates.
- Other Income Inflation. Where possible, the force is moving toward full cost recovery in terms of the supplies and services that it charges for. This will be subject to a discreet piece of work in the coming year. In recent years income budgets have been over-achieved therefore the budget estimates are considered reasonable.
- Officer numbers are based on actual salary levels and expected leavers. Police staff and PCSO numbers are also based on actual salary. This ensures that budgets are reasonable.

15. Given the uncertainty about the future resources available to the PCVC at the time of preparing this report, the estimates beyond 2016/17 are at present set out with the best available information at the time of this report. There have as yet been no indications of 2017/18 funding allocation by the Home Office.

Adequacy of Reserves

16. The CIPFA Local Authority Accounting Panel (LAAP) has issued a guidance note on Local Authority Reserves and balances (LAAP Bulletin 77) to assist local authorities in determining the adequacy of reserves. This guidance is not statutory, but compliance is seen as best practice.

17. The guidance however, states that no case has yet been made to set a statutory minimum level of reserves, either as an absolute amount or a percentage of the budget. Each Police and Crime Commissioner and local authority should take advice from its Chief Financial Officer and base its judgement on local circumstances.

18. The current policy statement on the level of reserves includes the following:

    a. *The PCVC will set aside sufficient sums in earmarked reserves as considered prudent to do so. The PCVC Chief Finance Officer will be authorised to establish such reserves as are required, will review them for both adequacy and purpose, and report on a regular basis to the Police Crime and Victims' Commissioner.*
    b. *The PCVC will aim to maintain, broadly, general reserves of between 4% and 5% of the revenue estimates currently £4.647m and £5.808m respectively*

(based on 2018/18 revenue funding of £116.166m) *subject to an annual review by the PCVC Chief Finance Officer as part of the budget process.*

19. Earmarked reserves have been established as a means of building up funds to meet known or predicted requirements. The level of earmarked reserves will be in the region of £7.344m at the end of March 2018.
20. The General Reserve has been set just below 5% of the revenue funding for 2018/19 and will be £5.666m at the end of March 2018.
21. The reserves are set at a level to accommodate any significant financial impact on capital or revenue expenditure in 2018/19.
22. The PCVC's approach to the management of risks alongside the PCVC's financial management arrangements suggest that the level of resources identified in the Annual Budget 2018/19 is sufficient to provide reassurance and confidence in the delivery of policing services to County Durham and Darlington.

Conclusion

23. **The PCVC acknowledges that the strength of the risk management processes, the adequacy of reserves and the robustness of the financial estimates give sufficient reassurance and confidence to enable him to approve the Annual Budget and the level of Council Tax for 2018/19.**