Leicester City Council

SECOND DESPATCH

MEETING OF THE LEICESTER, LEICESTERSHIRE AND RUTLAND POLICE AND CRIME PANEL

WEDNESDAY, 27 JANUARY 2021 AT 1PM

Further to the agenda for the above meeting which has already been circulated, please find attached the following: -

PROPOSED PRECEPT 2021-22 AND MEDIUM TERM FINANCIAL PLAN (MTFP)

Members to receive a report setting out the proposed precept 2021-22 and medium term financial plan (MTFP).

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POLICE AND CRIME PANEL FOR LEICESTERSHIRE

Report of	**POLICE AND CRIME COMMISSIONER AND CHIEF CONSTABLE**
Date	**WEDNESDAY, 27th JANUARY 2021 AT 1:00PM**
Subject	**PROPOSED PRECEPT 2021-22 AND MEDIUM TERM FINANCIAL PLAN (MTFP)**
Author	**PAUL DAWKINS, TEMPORARY CHIEF FINANCE OFFICER OF THE OFFICE OF THE POLICE AND CRIME COMMISSIONER**

Purpose of the Report

1. To present the 2021-22 Precept Proposal and the additional considerations contained within it.

2. To present the Medium Term Financial Plan (MTFP).

Recommendations

3. The Panel is asked to:

   a. Note the information presented in this report, including:

   - the total 2021-22 net budget requirement of £212.572m,
   - a council tax (precept) requirement for 2021-22 of £81.936m.

   b. Support the proposal to increase the 2021-22 Precept by £15.00 per annum (6.43%) for police purposes to £248.2302 for a Band D property.

   c. Note the future risks, challenges, uncertainties and opportunities included in the precept proposal, together with the financial and operational considerations identified.

   d. Note the Home Office grant allocations notified through the provisional settlement and the Band D council tax base and estimated collection fund deficit received from the billing authorities.

   e. Note the current Medium Term Financial Plan (MTFP) contained in Appendix 1, the Capital Strategy at Appendix 2 and the Treasury Management Strategy at Appendix 3.

Executive Summary

4. This report, and the Precept proposal, is the culmination of several months' work by the Office of the Police and Crime Commissioner (OPCC) and Force colleagues and takes account of public and stakeholder consultation and key government announcements.

5. The Police Grant Provisional Settlement was announced on 17th December 2020 and confirmed a £7.16m increase in revenue grant funding. This is intended to meet the year two salary costs and three year infrastructure costs of the Government's 20,000 police officer uplift programme 2020 to 2023. The precept referendum threshold has been confirmed at £15 for a Band D property.

6. The Commissioner has been briefed on the current and emerging operational challenges, both nationally and locally by the Chief Constable and has considered this advice in preparing the budget for 2021-22. The budget is focussed upon the Commissioner's priorities as contained within the Police and Crime Plan and the Strategic Policing Requirement and ensures there are strong links with the new Force Target Operating Model (TOM) implemented on 11th March 2020.

7. The second year of the Government's 20,000 officer uplift programme will deliver 88 additional officers during 2021-22 with another 100 expected during 2022-23. The Commissioner has also determined that 50 additional officers will be recruited during 2021-22 at a cost of £2m, and a further 20 officers during 2022-23 dependent upon the Funding Settlement announcement for that year. Of these 70 officers, 50 will be funded through the precept longer term and 20 will be subsumed into the third and final year of the Government's uplift programme for 2022-23 (subject to the conditions set out at paragraph 47: police officers). The locally funded uplift in officers for 2021-22 is further to the Commissioner's decision to increase officer numbers by 107 in 2019-20 and 100 during 2020-21. The effect of the overall uplift in full time equivalent (FTE) officer numbers will mean that they rise from 2,104 by March 2021, to 2,242 by March 2022 and 2,342 by March 2023.

8. Other investment items totalling £2m are contained within the budget proposals for 2021-22 and beyond. This includes additional police staff posts and supporting organisational infrastructure, deemed essential to deliver both service transformation and to support the growth in officer numbers.

9. In November 2018 a fundamental review of reserves took place and a Reserves Strategy was drafted and adopted by the Commissioner. As part of this budget process, the Commissioner has reviewed the adequacy and level of Reserves and is planning to responsibly use reserves over the medium term, in line with his priorities.

10. In considering the proposed level of precept, the Commissioner engaged an external company, SMSR Research, to undertake a series of three budget consultation focus groups. The focus groups were held virtually with local residents in order to explore the attitude towards increasing the precept for policing, as well as resident's views on policing priorities and perceptions of policing. SMSR Research also undertook a series of 150 pulse surveys via telephone with residents across LLR to test the COVID response, policing priorities and precept proposal. The results of both the focus groups and pulse surveys showed that the majority of local residents of LLR were supportive of the precept increase of £15 for a Band B property.

11. After careful consideration of these factors, the Commissioner is proposing a Band D precept increase of £15.00 per annum for the 2021-22 financial year in line with Home Office proposals. The Commissioner has allocated approximately 97.3% of the net

revenue budget requirement of £212.572m to the Chief Constable, for use on local policing and regional collaborations in order to safeguard and improve policing services across the entire Force area of Leicester, Leicestershire and Rutland.

Leicestershire Context

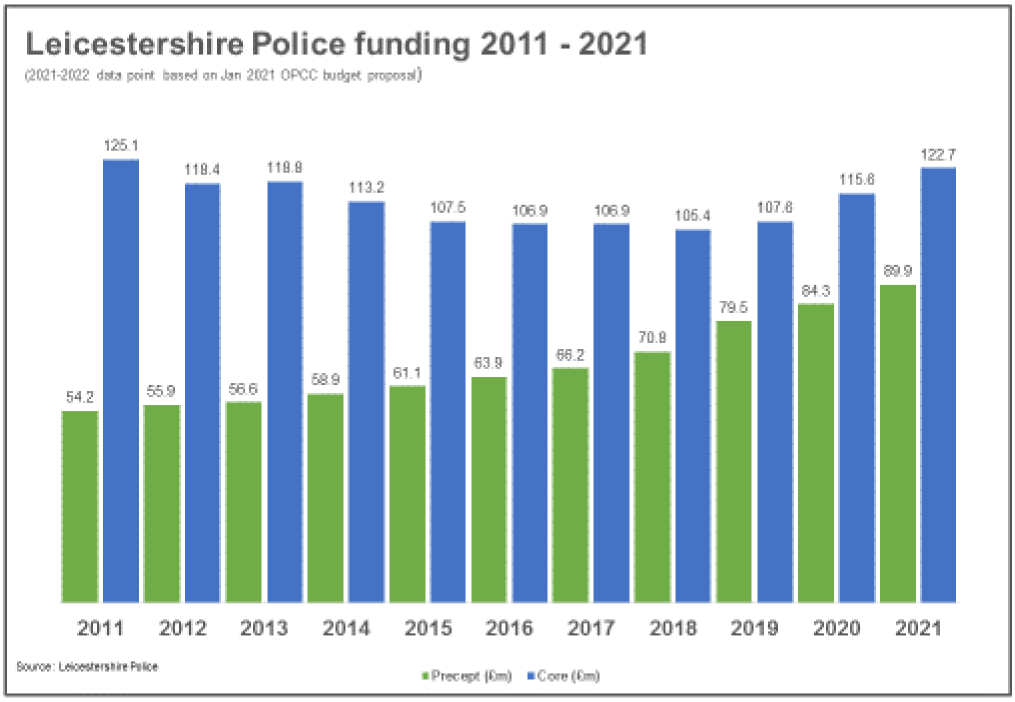
12. This section sets out some key information in relation to the policing area and the external factors that are driving demand which have a significant impact on policing in Leicester, Leicestershire and Rutland.

13. Chart 1 shows what has happened to core grant funding and the locally raised precept since 2010-11. It shows the actual cash grant received each year and does not take into account the real terms reduction in funding.

14. The chart shows that core grant funding has reduced from £125.1m in 2011-12 to £122.7m for 2021-22 a reduction of 2%. A study by the National Audit Office on "Financial sustainability of police forces in England and Wales 2018"[1] estimated that the real terms reduction in funding for Leicestershire between 2010-11 and 2018-19 was 30%.

15. The graph also shows that the funding raised locally has increased significantly over the same period. In 2011-12 £54.2m was raised directly from residents of the area (and related grants) and for 2021-22 this will increase to £89.9m. An increase of £35.7m or 66% over the period.

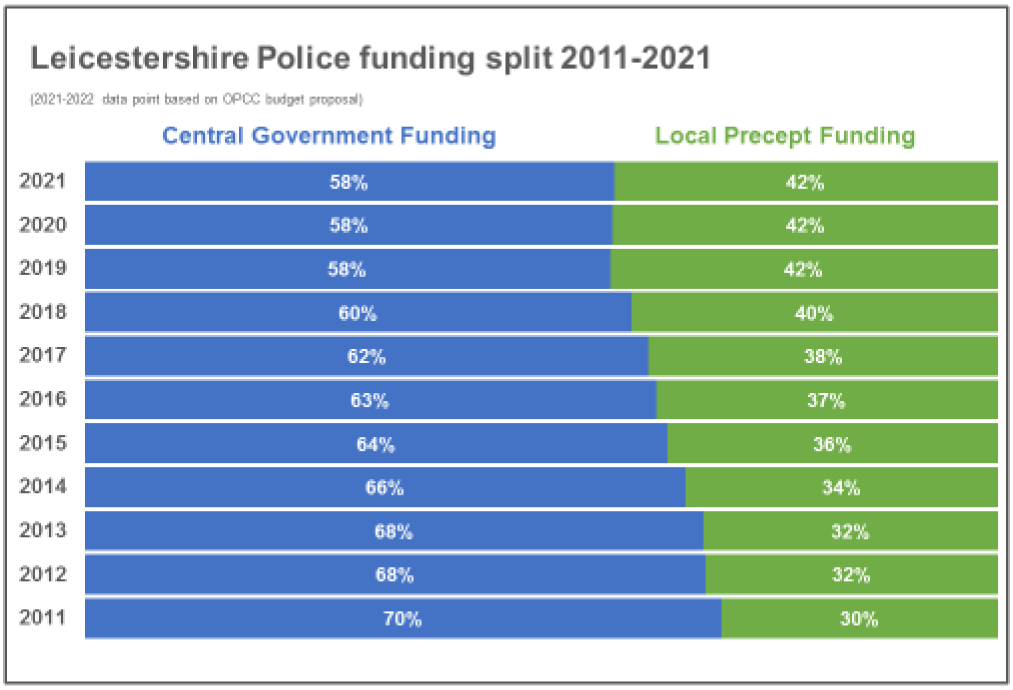
Chart 1 - Leicestershire Police Funding 2011-2021



16. Chart 2 demonstrates how the total funding has moved between Core Grant and Precept Funding since 2011-12. It shows that in 2011-12 70% of the funding came from Core Grant with the balance of 30% coming from the local precept. For 2021-22 this has moved

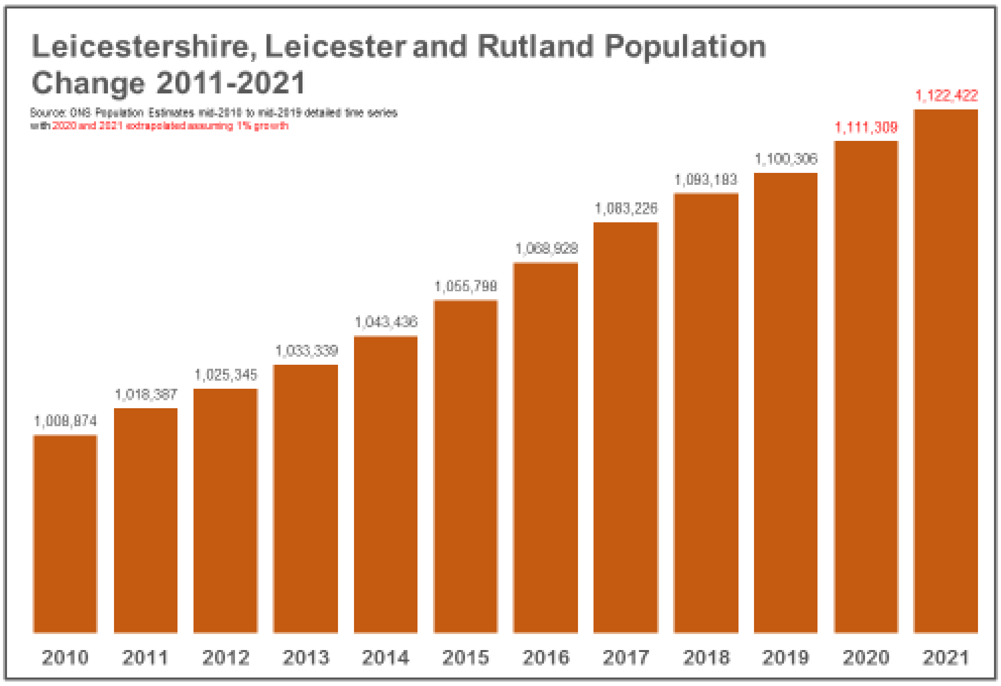
significantly to show that 58% of the total funding will come from Core Grant and that 42% of funding now comes directly from the local taxpayer (and related grants).

Chart 2 - Leicestershire Police Funding Split 2011-21



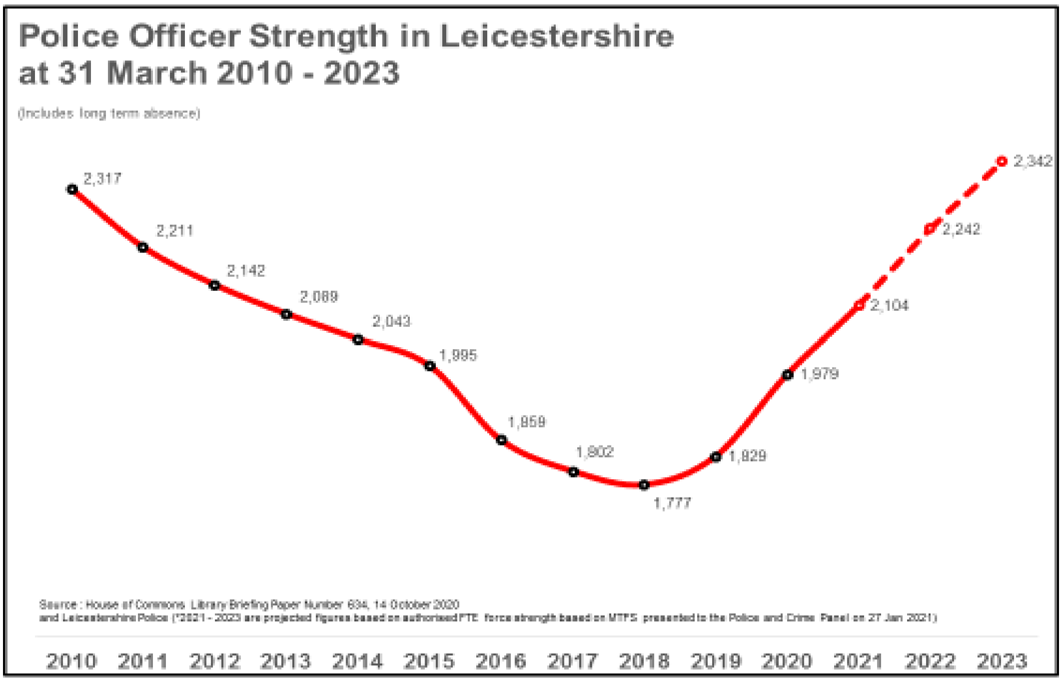
17. Chart 3 shows that whilst core grant has decreased significantly since 2010-11 the population within Leicester, Leicestershire and Rutland has increased significantly.

Chart 3 – LLR Population Change 2011-2021



18. Chart 4 illustrates the reduction in Police Officers over the same time period. In 2010 the force employed approximately 2,317 Police Officers. The comparable figure for 2021 is 2,104. A reduction of 213 officers or a 9% reduction in Police numbers.

Chart 4 – Police Officer Strength in Leicestershire at 31 March 2023



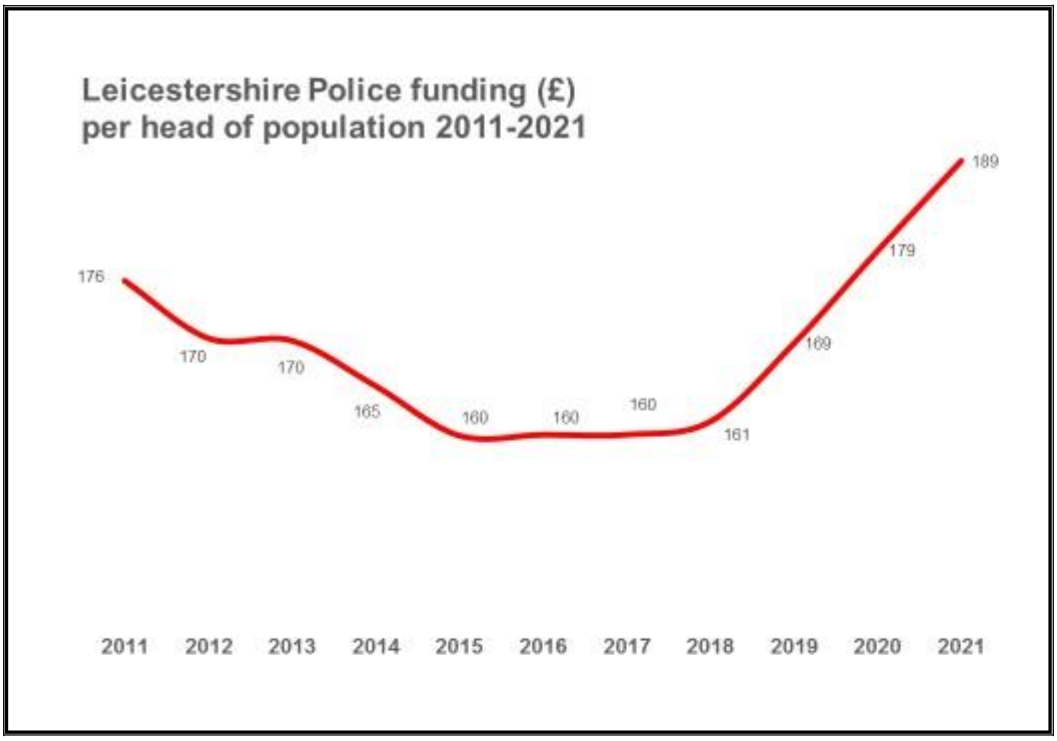
19. It should be noted that whilst funding has reduced significantly, demand for the service is very high. This is no surprise when the increase in population in the area is taken into account. A selection of information taken from the Force Management Statement projections for 2020/21 further underlines the point as detailed below:

Number of 999 Calls	139,366
Number of 101 Calls	332,546
Number of referrals to Child Protection Teams	15,366
Number of domestic incidents & crimes	22,316
Number of missing people & incidents	7,007

The above are just a small selection of the total number and variety of incidents dealt with by the Force in the last financial year.

20. Chart 5 below shows how much funding in total is received per head of population for each of the policing areas across England and Wales. This shows that Leicester, Leicestershire and Rutland receive approximately £189 per head of population which is lower than the national average. If funding was lifted to the average around £20m more funding would be available for investing in policing in the area.

Chart 5 - Leicestershire Police Funding by Population 2011-2021



The Grant Settlement 2021-22

21. The Provisional Police Grant Settlement was announced on 17th December 2020. The Home Office are obtaining feedback from stakeholders on the contents of the provisional settlement and the final settlement is expected in January 2021.

22. The increased Core and Ex-MHCLG funding quoted for Leicestershire is £7.2m. The overall increase in funding is broken down as follows:

	2020-21 £m	2021-22 £m	£m Increase	% Increase
Home Office Core Funding	71.0	75.9	4.9	6.9%
Ex-MHCLG Formula Funding	42.6	44.9	2.3	5.4%
Council Tax Support Grant*	7.0	8.1	1.1	15.7%
Council Tax Freeze Grant	1.9	1.9	0	0.0%
Precept & Collection Fund	77.3	81.8	4.5	5.8%
Total	**199.8**	**212.6**	**12.8**	**6.4%**
*Includes £1.1m LCTS revenue grant for 2021/22 NB. Excludes £1.5m Home Office Uplift Grant				

23. The additional precept funding is only delivered if the Commissioner chooses to increase the Policing element of the Band D Council Tax bill by £15.00 (6.43%) from £233.23 to £248.23. This generates an extra £4.5m in revenue funding based on a Band D tax base of 330,081 and a Collection Fund deficit of £0.2m.

24. There are other cost pressures which will need to be funded relating to staff pay, inflationary increases and other contractual increases.

25. After taking the above into account, there is a remaining Funding deficit of £0.2m which will be transferred from the Budget Equalisation Reserve (BER).

Taxbase and Collection Fund details

26. Leicester City Council, Rutland County Council and the Borough and District Councils are responsible for estimating the taxbase in their area, and the Council Tax Collection Fund surplus or deficit.

27. The total taxbase is used to calculate the total precept that will be collected by billing authorities on behalf of the Commissioner.

28. In 2020-21 the taxbase used in setting the budget for the Commissioner was 329,412 Band D equivalent properties. For 2021-22 this has increased to 330,081 Band D equivalent properties.

29. The collection fund deficit for 2021-22 is currently estimated at £2m. MHCLG have confirmed that PCCs will have to locally fund 25% of this or £0.5m for Leicestershire, to be spread equally over the period 2021-22 to 2023-24 at £167k per year. The exact deficit figure is still to be confirmed by the local Billing Authorities and compares to a surplus in 2020-21 of £492,414.

Council Tax Referendum Limit

30. The Localism Act 2011 requires authorities, including Police and Crime Commissioners, to determine whether their "relevant basic amount of council tax" for a year is excessive, as such increases will trigger a council tax referendum.

31. From 2012-13, the Secretary of State is required to set principles annually, determining what increase is deemed excessive. The Home Office has confirmed that in order to maximise council tax income for 2021-22, Police and Crime Commissioners can increase their precept on a Band D property by up to £15.00 without triggering a referendum.

Risks

32. There are number of financial risks within the draft budget requirement, as summarised below:
    - Police Staff Job Evaluation – The Force continues to progress the evaluation of its Police Staff posts. There are £204k of revenue costs included in the base to cover the job evaluation team cost. No further base budget provision has been included for 2021-22 and beyond to cover the implementation costs of the scheme. This remains a financial risk until the pay assimilation is completed, the actual costs are confirmed and options to fund these costs are developed.

    - Pay inflation – As part of the Government's Comprehensive Spending review, the Chancellor announced a public sector pay freeze for 2021-22 except for £250 increase for each employee earning less than £24,000 per annum, which equates to £178,000. Pay inflation for 2022-23 is included at 1.75% and 2% for 2023-24 onwards.

    - The Chief Constable, along with other Chief Constables nationally and the Home Office, currently have a number of claims in respect of unlawful discrimination arising from transitional provisions in the Police Pension Regulations 2015. The employment tribunal has agreed a process for the consideration of compensation claims between April 2020 and January 2021. The basis of claims from claimants and the extent or likelihood of these claims being successful is still being determined, and therefore no liability in respect of compensation claims is recognised in the MTFP. The number of claims identified for Leicestershire Police is 144 claims.

- Emergency Services Network (ESN) – The latest update suggests that the transition to the ESN is delayed until the latter part of 2021-22. However, a revenue provision of £0.4m has been included in the budget for 2022-23 onwards and a capital provision of £0.6m for 2021-22, rising to £5.2m in 2022-23. The costs are based on the latest national and regional estimates. It is highly likely that the cost of the project will be higher than currently estimated and will be revised as and when more detail becomes available. It is important to note the Settlement confirmed no extra funding will be provided to PCCs to meet the future revenue and capital costs of ESN. This therefore represents a significant financial risk.

- The National Police Air Service (NPAS) is currently being reviewed and the cost allocation model may change as a result. This is likely to lead to a modest reduction in costs, the extent of which is currently unknown. However, this remains a risk until an agreed position is reached.

Base Budget Preparation, Approach, and Scrutiny

33. In 2008-09 the Force introduced a risk-based approach to budget setting which sought to align the budget process with identified strategic operational priorities and risks.

34. The Force continues to consider key corporate risks when setting the budget.

35. Essentially these risks are operational and organisational around managing people, infrastructure assets, information and so on. The Force has maintained and kept up to date, its Corporate Risk Register that sets out how it intends to control and mitigate these risks. The Corporate Risk Register is regularly reported to the Joint Arrangements Risk and Assurance Panel which is a public meeting.

36. The Force continues to identify its Strategic Operational Risks as part of the National Intelligence Model (NIM). This has been used to inform resourcing strategies at both Directorate and Departmental level.

37. Each year, the Force undertakes a major exercise to review its operational risks which are set out within the "Force Strategic Policing Assessment". This was also informed by the work of regional collaborations.

38. The purpose of the Force Strategic Assessment is to identify those areas of greatest risk. Essentially, a high risk area is where only limited resources have been allocated to address a substantial risk, thereby creating a significant risk gap.

39. The revised five-year financial forecast and, in particular, the 2021-22 budget contained within this report aligns the Force and Commissioner's financial resources to risk and therefore, is fundamental to the Force's performance management regime.

40. The CFO has worked closely with the Force finance team throughout the year during the budget monitoring process and in the preparation of the budget for 2021-22. In respect of the budget, this has included (but was not limited to), the identification and agreement of assumptions and methodology and challenge and scrutiny of the budget workings. In

addition, where the CFO has sought clarification, or changes, these have been discussed and amendments made where appropriate.

41. The Commissioner, together with his Senior Management Team have held regular discussions with the Chief Constable and his Chief Officers throughout the year, particularly prior to and throughout the budget preparation process and the announcement and interpretation of the Settlement.

42. This has resulted in a number of full and robust discussions of the budget requirement, the national and local operational and financial challenges, the precept options available and a review of the MTFP and associated risks.

43. Furthermore, there has been a significant degree of scrutiny and challenge undertaken by the Commissioner and his team, prior to and during, the Strategic Assurance Board on the 19th January 2021, at which, agreement of the Force budget for 2021-22 between the Commissioner and the Chief Constable was reached.

Revenue Budget 2021-22

44. The base budget for 2021-22 has been built based upon the 'budget rules' which are consistent with previous years and the risk based approach outlined earlier in the report.

45. In line with this approach, the Panel is advised that the total net budget requirement in 2021-22 is £212.572m. This equates to an increase of £12.709m (6.4%) from the 2020-21 net budget requirement level of £199.863m (see Appendix 1).

46. The table below summarises the 2021-22 draft budget requirement:

	£	£
2021-22 Base Budget Requirement (Gross)		
Police Officer Pay & Allowances	115,280,293	
Staff Pay & Allowances	47,204,780	
PCSO Pay & Allowances	6,722,379	
Regional Collaboration	9,462,279	
Police Officer Pensions	3,429,844	
Non-Pay Expenditure	37,261,708	
Inflation Contingency	1,754,575	
Income	(13,545,660)	
Office of the Police and Crime Commissioner	1,402,352	
Commissioning	4,343,820	
TOTAL		**213,316,370**

There are other budget streams which when added to the above makes up the 2021-22 net budget requirement. These are listed overleaf.

	£	£
2021-22 Base Budget Requirement (Gross)		**213,316,370**
Investment	4,490,017	
Revenue Contribution to Capital	227,000	
Efficiency Savings	(500,000)	
Specific Grants	(1,277,870)	
Home Office Pension Grant	(1,902,540)	
Home Office Uplift Grant	(1,500,000)	
Transfer from Commissioning Reserve	(150,908)	
Transfers to / (from) liability & equipment reserves	78,000	
Transfer from BER for specific projects	(154,539)	
General transfer to / (from) reserves	83,428	
Transfers to / (from) other reserves	(136,878)	
2020-21 Base Budget Requirement (Net)		**212,572,080**

47. There are a number of significant aspects of the budget to highlight in line with the Police and Crime Plan priorities as follows.

- **Police Officers** – The Police Officer pay, and allowances budget is calculated based on the latest recruitment and attrition forecasts, taking into account:

    - Rank and incremental changes.
    - Externally funded and seconded officers.
    - Allowances.
    - Changes to the effective rates for National Insurance and Pension contributions.
    - The full year effect of the September 2020 pay award.

    Year two of the Government's 20,000 officer uplift programme will provide a further 88 officers in total (6,000 nationally). This will increase overall police officer numbers to 2,192 FTEs by March 2022. The estimated total cost of the 88 officers in 2021-22 is £2.6m which will be fully funded by Home Office grants, but only if they are recruited in full. The Home Office will confirm the allocations to Forces for 2022-23 or year three, in due course. This is currently assumed to be around 100 officers. However, the national uplift programme alone will not restore officer numbers to pre-austerity levels of around 2,317 FTEs.

    In order to provide a further uplift in officer numbers, the Commissioner has agreed with the Chief Constable that 50 additional officers will be recruited during 2021-22 at a total cost of £2m to be funded through precept. A further 20 officers will be recruited during 2022-23. Of these 70 officers, 50 will be funded through the precept longer term, and 20 will be subsumed into the third and final year of the Government's uplift programme for 2022-23. The locally funded uplift in officers is further to the Commissioner's decision to increase officer numbers by 107 in 2019-20 and 100 during 2020-21. The combined effect of the national and local uplift in full time equivalent (FTE) officer numbers will result in 2,104 by March 2021, rising to 2,242 by March 2022 and 2,342 by March 2023. The estimated cost of the Commissioner's officer uplift is £2m for 2021-22.

The planned increase of 50 officers in 2021-22 will deliver enhancements to neighbourhood policing, the rural and heritage crime team, serious crime investigation, sex offender management, anti-fraud capability, and violent and complex crime investigation and problem solving, including knife crime.

The potential local uplift of 20 officers in 2022-23 will be dependent upon:

- The precept referendum level for 2022-23 being at least 4% or £10.
- The national uplift grant for year three 2022-23 is provided to meet the cost of at least 20 officers.
- There are no meaningful adverse changes in any of the other assumptions in the medium term financial plan (MTFP see para.68).
- There are no PCC approved additional demands not currently captured in the MTFP arising from digital developments and national initiatives.

Also included within the MTFP is an estimated 5% increase in the employer's superannuation rate for 2023-24 onwards which will cost around £5m.

- **Police Community Support Officers (PCSOs)** – The PCSO budget is based on 200 FTEs working across the force area.

- **Support Staff** – The budget is based on 1,166 FTEs (excluding PCSO's) which includes a number of changes to the establishment to address demand. The Force is also currently undertaking job evaluation of its police staff posts.

- **Regional Budgets –** Regional collaboration budgets relate to Leicestershire Police's share of collaborative arrangements which include the cost of police officer posts. The budget for regional collaboration in 2021-22 is £9.5m.

- **Non-pay** – A significant element of the non-pay budget increase relates to IT enhancements and innovation. This is aligned to the national expectation to deliver a "modern digitally enabled workforce that allows officers to spend less time dealing with bureaucracy and more time preventing and fighting crime and protecting the public". The budget includes licensing costs and other system costs. Revenue costs in relation to capital financing are also included and will increase by £1.2m in 2021-22 to £4m.

Office of the Police and Crime Commissioner

48. The total cost of the Office of the Police and Crime Commissioner is £1.40m, which is a net increase of £70k from 2020-21. The office structure has recently been reviewed to facilitate these changes. It employs 23 members of staff whose costs represent 86% of total expenditure.

49. Supplies and Services includes items of expenditure such as internal audit and external audit costs, and subscriptions to external associations. External audit fees are forecast to increase by 40% to £50k for 2021-22 as a consequence of changes in the nationally agreed rates. Detailed budgets for the office are available upon request.

50. The main costs are summarised below:

	£000
Staffing	1,129
Transport	8
Supplies and Services	266
Total Expenditure	**1,403**
Income (MOJ Grant)	(77)
Net Expenditure	**1,326**

51. During the Commissioner's term, the office has significantly expanded its range of activities including:

- The establishment and running of a Violence Reduction Network
- The implementation of an Early Intervention Youth Fund
- The management of the East Midlands Criminal Justice Board
- The co-development of the new probation delivery arrangements.
- The enhancement of the Strategic Partnership Board and sub-groups
- The establishment and management of an area wide Prevention Board
- The development of community focussed initiatives such as People Zones
- Closer engagement and collaborative working relationships with Community Safety Partnerships

Commissioning

52. The Commissioning Framework for 2021-22 aligns to the priorities contained within the Police and Crime Plan and provides a budget of £4.344m. The commissioning budget held by the OPCC has reduced as a proportion of the overall budget.

53. The budget is funded as follows:

	£000
Base budget	2,992
Ministry of Justice Grant	1,201
Contribution from Commissioning Reserve	151
Total funding	4,344

54. The 2021-22 Commissioning Budget includes £0.25m for small grants to Community Organisations which are awarded at the discretion of the Commissioner.

55. The Framework assumes £0.151m will be drawn from the Commissioning Reserve for the year.

56. The Ministry of Justice (MoJ) Victims and Witnesses Grant is included at flat-cash as the funding allocation for 2021-22 is unknown at the time of writing this report.

57. It is important to note that in addition to the published budget each year, the Commissioner has opportunities to submit bids to funding bodies (normally government departments) for additional, normally in year, funding. The table below shows the additional funding brought in for the benefit of LLR over the course of the current Police and Crime Plan. It is anticipated that further significant additional funding will be acquired for 2021-22.

Fund name	2017/18 (£)	2018/19 (£)	2019/20 (£)	2020/21 (£)	2021/2022 (£)	Totals (£)
VAWG Transformation Fund	38,582	285,478	332,376			**656,436**
Serious violence intervention project		82,000				**82,000**
Early Intervention Youth Fund			342,536			**342,536**
Violence Reduction Network			880,000	880,000		**1,760,000**
MoJ Covid-19 Funding Round 1				444,997		**444,997**
MoJ Covid-19 Funding Round 2				137,326		**137,326**
HO Covid-19 Funding				74,720		**74,720**
ISVA funding				69,922	109,274	**179,196**
Safer Streets Fund initial bids				1,518,306		**1,518,306**
Safer Streets Fund - supplementary bid				100,000		**100,000**
Domestic Abuse Perpetrator Fund				246,792		**246,792**
Winter Violence Prevention Fund				52,080		**52,080**
Totals	**38,582**	**367,478**	**1,554,912**	**3,524,143**	**109,274**	**5,594,389**

Investments

58. Investment items totalling £4.5m are contained within the budget proposals for 2021-22 and beyond. This includes additional resources and organisational infrastructure deemed essential to deliver both service transformation and support for the growth in officer numbers. This includes:

    a) salary and infrastructure costs relating to the increase of the PCC’s 50 additional officers of £2m (see para. 47),

    b) resources for IT digital change and transformation of £0.9m,

    c) crime scene investigation and evidential property of £0.3m,

    d) drone and additional ANPR (automatic number plate recognition) capability of £0.1m,

    e) nationally funded officer uplift related infrastructure costs of £0.6m,

f) other enabling services requirements of £0.6m.

Proposed Efficiency Savings

59. As part of the budget proposals for 2021-22, the Commissioner has agreed with the Chief Constable that a £0.5m efficiency savings target will be included within the base budget. A plan to deliver these savings will be developed in the coming months.

Capital Strategy, Capital Programme and Treasury Management Strategy

60. The Capital Strategy 2021-22 is set out in Appendix 2. The revenue consequences of the proposed programme have been taken into account in the development of the revenue budget, and the required prudential indicators are set out.

61. The Capital Programme includes investment in operational areas of premises, IT and vehicle fleet.

62. The anticipated local capital costs for the Emergency Services Network (ESN) have been included in the Capital Programme and Revenue Budget based on the latest Home Office estimates. However, there remains significant national and local uncertainty regarding the costs and timescales of the network and this financial risk will continue to be closely monitored.

63. The Treasury Management Strategy report is set out at Appendix 3. This is required by the Code of Treasury Management published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and explains the Investment Strategy in relation to reserves and balances.

64. Both the Capital and Treasury Management strategies were fundamentally reviewed in January 2021 and subsequently agreed by the Strategic Assurance Board.

Medium Term Financial Plan (MTFP)

65. It is a requirement that the Police and Crime Plan and budget must cover the period until the end of the financial year of the incoming Commissioner to be elected in May 2021. Thus, the relevant date is 31st March 2022.

66. However, prudent financial management requires the Commissioner to have an MTFP that covers a period of at least four financial years. The financial information detailed in Appendix 1 covers a four year period, until the end of March 2025. This provides a longer term view which will enable informed decision making to take place over the period of the plan. This is not without its challenges, given that there is only a firm Government announcement of funding for 2021-22 and a one year Comprehensive Spending Review instead of the 3 year review which was originally expected.

67. However, an MTFP has to be formulated using the best information available at the time of producing it. The attached MTFP has been produced on this basis, accepting that it is subject to change as new information emerges that can and will, change the assumptions inherent in the plan.

68. In 2021-22, the Commissioner will allocate approximately 97.3% of the net budget requirement to the Chief Constable for use on local policing and regional collaborations.

69. Key assumptions that have been included in seeking to outline the financial challenge for the medium term are:

- **a.** That the council tax base grows at 0.5%, 1% and 1.25% for financial years 2022-23, 2023-24 and 2024-25 respectively.
- **b.** All existing council tax related grants continue up to and including 2024-25.
- **c.** Core Government funding remains the same for the life of the plan with the exception of the year on year officer uplift grant. This has been increased from £1.5m in 2021-22 to £2.2m from 2022-23 onwards to align with funding expectations around officer growth (see para. 47).
- **d.** The precept increases by £15.00 per Band D equivalent property for 2021-22 and 2% each year thereafter in line with the prevailing national view, and modelling assumptions in each of the other East Midlands region Force areas.
- **e.** Pay awards for officers and staff are included at 0% for 2021-22, 1.75% for 2022-23 and for 2% each year thereafter.
- **f.** Non-pay inflation is included at 2% for 2021-22 and for each year thereafter.
- **g.** At this stage, there are no significant impacts on grant funding incorporated into the MTFP from the Funding Formula Review.
- **h.** No additional, unfunded responsibilities are given to the Commissioner.
- **i.** Further borrowing beyond the capital programme is not required.

70. Taking into account the above assumptions, the position is as follows:

Summary of the Budget Requirements (see Appendix 1 for detailed analysis)

	2021-22	2022-23	2023-24	2024-25
	£m	**£m**	**£m**	**£m**
Net Budget Requirement	212.5	217.4	227.7	232.8
Net Funding	212.6	213.5	216.1	219.0
Funding Surplus/(Gap) before use of Reserves	**0.1**	**-3.9**	**-11.6**	**-13.8**

Use of Reserves and Balances

71. In considering the 2021-22 budget, the Commissioner has reviewed all of the reserves held. As detailed above, the MTFP is predicated on the prudent use of reserves over the first three years of the plan.

72. In November 2018 a Reserves Strategy was agreed which set out the following 'guiding principles' for managing reserves:

    - General fund reserves should be in the range of 2% to 5% of the total net budget (between £4.25m and £10.63m based on the 2021-22 budget).
    - The BER can be used to support the budget but there must be a strategy to move reliance away from the reserve over a period of time.
    - Other earmarked reserves should only be used for specific time limited projects, to provide financial cover for potential future financial liabilities and for 'invest to save' projects.
    - Ongoing reliance should not be placed on reserves to deal with the funding of financial deficits and a clear plan should be in place to move reliance away from one off reserves.
    - There should be an annual review of reserves.

73. Three types of Reserve are held, and these are explained further below:

a. General Reserve

There is a General Reserve which will be reduced from £5m to £4.25m with £0.75m being transferred to the BER to support the projected MTFP. The £4.25m Reserve balance represents 2% of the net budget requirement for 2021-22 and is within the recommended limits referred to above. It is prudent to have such a reserve to enable the organisation to withstand unexpected events which may have financial implications. There is no further planned use of this reserve during 2021-22 or beyond.

b. Budget Equalisation Reserve (BER)

Over recent years, due to the impact of effective efficiency programmes and through financial prudence, a Budget Equalisation Reserve (BER) has been created. This reserve is currently estimated to be £12.6m at 31st March 2021, increasing to £13m by 31st March 2022 which takes into account the £0.75m transfer from the General Reserve above. Its purpose when established was twofold:

1. To fund ‘invest to save’ and other new initiatives and investments.

2. To partly support funding shortfalls in the MTFP.

The Commissioner is currently planning to fully utilise the BER by 2023-24.

c. Earmarked Reserves

The Commissioner currently holds a number of Earmarked Reserves which at 31 March 2021 are estimated to total £7.6m (excluding the General Reserve and BER) and those to note are as follows:

OPCC & Commissioning Reserve £0.7m – This contributes towards supporting the cost of the Commissioning Framework.

Civil Claims £1.4m – This reserve holds funds set aside where considered prudent for Civil Claims (Public and Employer liability) in line with professional advice.

Capital Reserve £0.2m – to support future Capital expenditure.

Proceeds of Economic Crime - £0.9m – reserve funded from proceeds of crime, used to support the Force’s capability in specific investigative areas.

74. The following transfers to and from reserves form part of these budget proposals:

Transfers from Reserves	
	£m
Budget Equalisation Reserve	
Historical Investigations	-0.155
	-0.155
Other Earmarked Reserves	
Economic Crime (POCA)	-0.108
Equipment Reserve	-0.227
MAPPA	-0.028
	-0.363
OPCC	
Commissioning	-0.151
	-0.151
	-0.669

Transfers to Reserves	
	£m
Budget Equalisation Reserve	0.083
Specific Reserves	
Equipment Reserve	0.050
Fleet Insurance Claims	0.125
Civil Claims Liability	0.130
	0.305
	0.388

	£m
Net Transfers to/(from)	
Earmarked Reserves	**-0.281**

Precept Proposal

75. After careful consideration of all the factors highlighted within this report, the Commissioner is proposing a £15.00 Band D Precept increase in line with Home Office proposals to maximise resources for operational policing.

76. In considering the proposed level of precept, the Commissioner engaged an external company, SMSR Research, to undertake a series of three budget consultation focus groups; one in each of the city, the county and Rutland. The focus groups were held virtually with local residents, in order to explore the attitude towards increasing the precept for policing, as well as resident's views on policing priorities and perceptions of policing. SMSR Research also undertook a series of 150 pulse surveys via telephone with residents across LLR to test the COVID response, policing priorities and precept proposal. The results of the both the focus groups and pulse surveys showed that the majority of local residents of LLR were supportive of the precept increase of £15 for a Band B property.

77. In making this proposal, the Commissioner is extraordinarily grateful to those who took part in the focus groups which showed the willingness of the public in Leicester, Leicestershire and Rutland to pay more in order to safeguard and develop policing in their neighbourhoods. Additionally, the Commissioner is satisfied that in doing so, he is maximising the resources available to Leicestershire Police to deliver the priorities outlined in his Police and Crime Plan.

Statement of the Chief Constable

78. In proposing the precept the PCC has sought views from the Chief Constable and his statement on the PCC's precept proposal for 2021-22 is as follows: -

"It is my responsibility, as described in the Policing Protocol Order 2011, to provide professional advice and recommendations to the PCC in relation to his receipt of all funding, including the government grant and precept and other sources of income related to policing and crime reduction. Under the terms of the Order I am responsible for the delivery of efficient and effective policing, the management of resources and expenditure by the Force. I also should have regard to the Police and Crime Plan, assist the planning of the force's budgets, have regard to the Strategic Policing Requirement set by the Home Secretary in respect of national and international policing responsibilities and have day to day responsibility for financial management of the force, within the framework of the agreed budget allocation and levels of authorisation agreed with the PCC.

My preferred option is an increase in the precept of £15. This will best enable the Force to deliver the Police and Crime Plan and meet the requirements of the Strategic Policing Requirement going forward. It also reflects the thrust of the national core grant allocation from Central Government and the desire of local communities for more policing.

This is the eleventh occasion that I have been involved as Chief Constable in the budget setting process for Leicestershire Police; it is the first that has required the setting of a budget during an international pandemic. In fulfilling that responsibility, it remains the case that the consistent feedback from local communities is that they want to see more policing across Leicester, Leicestershire and Rutland. This budget proposal continues the process of restoration that the PCC and this panel have supported across recent years. Your investment last year has seen us able to replace those who leave the force, and to grow back some of the capacity that we have lost across the last decade. In 2020 we recruited and trained 383 new police officers and 60 police community support officers; they are now deployed in local communities across LLR. We also welcomed 202 new members of police staff.

I should place on record the fact that a pay freeze has been imposed on officers and staff this year. Whilst I do understand that the pandemic has tragically hit many people very hard, and whilst the freeze is helpful in managing the budget, it seems hard on officers and staff who have worked tirelessly and at risk to themselves throughout the COVID crisis.

It is also the case that the day to day funding of operational policing across Leicester, Leicestershire and Rutland is overly reliant on the use of ever dwindling reserves. Those reserves are almost spent, and this budget takes some measured, but no less real, risks looking into the immediate future. This is not helped by us having an annual budget setting process; for a business that spends over 80% of its' budget on people that makes planning hard. We really need a multi-year budget settlement.

I make no apology for repeating the fact that in 2010 we had over 2,300 police officers and 251 PCSOs. At our lowest point we had dropped to 1700 police officers and 180 PCSOs. If the Panel were minded to support growth of £15 this would enable us to keep putting back some of our lost ability to patrol neighbourhoods, deter crime and investigate offences. It also enables us to enable those officers and staff with up to date digital technology. Our move in March 2020 to a new Target Operating Model, featuring officers and staff based in local communities seems to have gone well, although it has been tested by COVID.

This budget can make a significant and positive operational difference, and one that will be noticed by people living and working in neighbourhoods across the Force. The investments made in recent years through both central government funding and local precept, coupled with our move to the more locally focussed operating model, seem to be being reflected in what local communities are seeing. In 2020 we dealt with 140,000 999 calls, 95.6 percent of them answered within 10 seconds, answered 333,000 101 calls, 73.9 percent of them within 60 seconds (68.2 percent within 30 seconds) and received almost 17,000 online reports. We have also dealt with almost 20,000 COVID related incidents. Every day we have safeguarded twice as many people as we've arrested, and we have arrested over 12000. We have dealt with on average 16 missing people a day

On the way to this meeting today, even if that was just a walk into another locked down room, I would suggest that all of us have used technology in some fashion. That may be a phone, a handheld device, a tablet, a voice activated assistant or a laptop. I guess that none of us have walked past a phone book, photo album, map book, record player or video recorder on the way. The pace of technological change is accelerating. As a Force we need to be able to meet the expectations of the public that we can deal with the digital world, whilst ensuring that we are match fit to take on criminals who seek to exploit cyber space. There are very few incidents that we deal with that don't have a cyber footprint. To be able to deal with those incidents effectively requires investment.

The Force operates in a complex world. The national threat level re terrorism sits at 'severe' meaning that an attack is highly likely. We seek to prevent offending by working with partners across the whole spectrum of police business; that includes working with the Violence Reduction Network, Community Safety Partnerships and communities across Leicester, Leicestershire and Rutland. This budget will enable that work, grow our *neighbourhood teams keep a resilient 24/7 capacity, and enhance key areas of concern. We remain very efficient when compared to other Forces, with consistently lean functions supporting our frontline.*

This proposal for a £15 precept rise has my support. It enables us to enhance our support to local communities across the whole Force area."

Robustness of the Budget –Statement of the Commissioner Chief Finance Officer

79. *The Local Government Act 2003, Part 2, Section 25, as amended by the Police Reform a*nd Social Responsibility Act 2011, requires the Commissioner's Chief Finance Officer to report on the robustness of the estimates used for the budget and the adequacy of the proposed financial reserves. The Commissioner is required to have regard to the report of the Chief Finance Officer and the report must be given to the Police and Crime Panel. The CFO statement is as follows:

"I have attended a number of Strategic Assurance Board meetings to provide assurance to the Panel that these factors have been considered. Since that date, dialogue, scrutiny and challenge has continued where new factors or information have been highlighted and discussed.

In the sections above, titled "Base Budget Preparation, Approach, and Scrutiny" and "Revenue Budget 2021-22", a description of the development of this budget is given.

During the preparation of the budget, I have been given full access to the budget model and have been consulted on the assumptions being made in order to develop the model. I have received timely and detailed responses to queries and/or points of clarification. I have agreed with the assumptions being made, and where there were any differences of opinion they were discussed until a consensus was reached.

Together with the Chief Officer Team, OPCC, Chief Executive, the Commissioner and the Deputy Commissioner, I have reviewed, scrutinised and challenged the case for operational investment. This has included reviewing the operational and financial risks of the investment and highlighting the impact on the MTFP.

I have confidence that the budget monitoring process will identify any variations of expenditure or income from that budgeted so that early action can be taken, and this is regularly reviewed, discussed and scrutinised at the Strategic Assurance Board.

I have also reviewed the detailed calculations in arriving at the budget requirement and council tax precept and options and find these to be robust. I also have, together with other precepting partners, sought authorisations from billing authorities in relation to taxbase and council tax surplus or deficits.

The Chief Constable has discussed the revenue and capital operational and Police and Crime Plan requirements for 2021-22 and future years and together, we have been able to develop a budget that supports the delivery of the priorities set out in the Police and Crime Plan.

There is an operational contingency available to the Chief Constable, and sufficient general reserves available should operational demands require access to these. Earmarked reserves are also in place for specific requirements.

In coming to my conclusion on the robustness of the budget I have also reviewed the separate papers on Capital Strategy (Appendix 2) and Treasury Management (Appendix 3).

This report details that the budget can be balanced over the next two years with the use of the Budget Equalisation Reserve (BER) which will be fully utilised during 2022-23. The BER was set up to help smooth variations in the budget and therefore it is being used for the purpose it was intended. It should be noted that there are no plans to utilise any of the £4.25m held in the General Reserve which should be held as a 'contingency of last resort' or to provide funds on a very short term basis. This level of General Reserve is within the range expected and defined by the Reserves Strategy as set out earlier in the report.

Beyond 2021-22, there is a high level of uncertainty as to what future finance settlements might be and therefore, we are reliant upon the next Comprehensive Spending Review in 2022-23 to provide a degree of certainty. However, the assumptions contained within the MTFP are reasonable and prudent and will be updated as new information emerges. As such the MTFP contains the best estimates available at this point in time.

I conclude, therefore, that the budget for 2021-22:

1. *Has been prepared on a robust and prudent basis.*

2. *Includes investment into a number of areas as detailed in the report which are all in line with the Commissioner's Police and Crime Plan priorities.*

3. *Includes an appropriate use of reserves and that the planned level of reserves remaining are adequate and sufficient.*

However, it is prudent to be mindful of emerging issues and challenges which will change the assumptions in the medium term financial plan and therefore, the estimated budget requirements for those years."

Implications

Financial:	The precept proposal, the financial position, uncertainties and timescales.
Legal:	The Commissioner is required to set a precept and this complies with those requirements.
Equality - Impact Assessment:	The budget and proposed precept forms part of the Police and Crime Plan which has a full impact assessment. Furthermore, the additional resources provided support the key priorities of the Police and Crime Plan.
Risks and – Impact:	Risks have been identified within the report.
Link to Police and Crime Plan:	The budget and precept support the delivery of the Police and Crime Plan.

List of Appendices

Appendix 1 Budget and Precept 2021-22 to 2024-25
Appendix 2 Capital Strategy 2021-22
Appendix 3 Treasury Management Strategy

Background Papers
Provisional Police Funding Settlement 2021-22 – December 2020
Leicestershire Police and Crime Commissioner Precept Survey – January 2021

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The Office of the Police and Crime Commissioner for Leicestershire
Budget Requirement and Precept 2021/22

2020/21 Approved Budget £	Precept Increase	6.43% 2021/22 Revenue Budget £	2.00% 2022/23 Revenue Budget £	2.00% 2023/24 Revenue Budget £	2.00% 2024/25 Revenue Budget £
104,670,112	Police Pay & Allowances	115,280,293	116,448,287	121,652,105	123,261,446
44,352,536	Staff Pay & Allowances	47,204,780	48,205,920	49,785,869	51,458,369
6,433,948	PCSO Pay & Allowances	6,722,379	6,909,951	7,161,497	7,427,194
155,456,596		**169,207,452**	**171,564,158**	**178,599,471**	**182,147,009**
9,588,093	Regional Collaboration	9,462,279	9,660,163	9,853,339	10,050,483
3,460,630	Police Pensions	3,429,844	3,540,930	3,654,238	3,769,813
34,929,144	Non-Pay Expenditure	37,261,708	40,629,560	43,894,912	45,282,856
3,452,895	Inflation Contingency	1,754,575	1,781,673	1,581,673	1,581,673
(14,220,908)	Income	(13,545,660)	(13,689,668)	(13,936,694)	(14,195,919)
37,209,853		**38,362,746**	**41,922,658**	**45,047,469**	**46,488,906**
192,666,449	**Force Budget Requirement (excl. OPCC)**	**207,570,198**	**213,486,816**	**223,646,940**	**228,635,915**
1,332,088	OPCC	1,402,352	1,433,132	1,472,266	1,513,571
4,395,961	Commissioning	4,343,820	4,280,736	4,288,783	4,288,783
5,728,049		**5,746,172**	**5,713,868**	**5,761,048**	**5,802,354**
198,394,498	**Gross Budget Requirement**	**213,316,370**	**219,200,684**	**229,407,988**	**234,438,269**
(1,277,870)	Specific Grant - Victims and Witnesses	(1,277,870)	(1,277,870)	(1,277,870)	(1,277,870)
(1,902,540)	Home Office Pension Grant	(1,902,540)	(1,902,540)	(1,902,540)	(1,902,540)
(2,500,000)	Home Office Uplift Grant	(1,500,000)	(2,216,831)	(2,216,831)	(2,216,831)
5,778,817	Investment	4,490,017	4,446,466	4,120,208	4,164,856
-	Revenue contribution to capital	227,000	-	-	-
-	Efficiency Savings	(500,000)	(500,000)	(500,000)	(500,000)
1,369,894	Use of reserves for specific projects	(364,325)	(321,255)	107,989	121,387
-	General transfer (from)/to reserves	83,428	(3,899,978)	(9,354,913)	
199,862,799	**Net Budget Requirement**	**212,572,080**	**213,528,676**	**218,384,032**	**232,827,272**
-	**Surplus / (Funding Gap)**	-	-	**(2,318,773)**	**(13,761,168)**
-	**Transfers into Reserves**				
199,862,799	**Net Revenue Budget**	**212,572,080**	**213,528,676**	**216,065,259**	**219,066,104**
	Funding				
71,002,112	Police Grant	75,864,611	75,864,611	75,864,611	75,864,611
42,608,439	Business Rates	44,907,386	44,907,386	44,907,386	44,907,386
7,020,391	Council Tax Support Grant	8,120,391	7,020,391	7,020,391	7,020,391
1,910,530	Council Tax Freeze Grant	1,910,530	1,910,530	1,910,530	1,910,530
492,414	Collection Fund Surplus / (Deficit)	(167,000)	(167,000)	(167,000)	-
76,828,913	Precept	81,936,162	83,992,758	86,529,341	89,363,186
199,862,799		**212,572,080**	**213,528,676**	**216,065,259**	**219,066,104**

£	**Precept by Billing Authority**	*Tax Bases (Advised)*	£	£	£	£
7,903,353	Blaby	33,977.11	8,434,145	8,645,842	8,906,946	9,198,650
13,435,739	Charnwood	58,286.90	14,468,569	14,831,730	15,279,648	15,780,058
8,425,837	Harborough	36,356.10	9,024,682	9,251,201	9,530,588	9,842,716
9,095,092	Hinckley & Bosworth	38,719.60	9,611,374	9,852,619	10,150,169	10,482,588
17,749,051	Leicester City	75,601.00	18,766,451	19,237,489	19,818,461	20,467,518
4,416,634	Melton	19,088.38	4,738,312	4,857,244	5,003,933	5,167,812
8,066,266	North West Leicestershire	34,841.00	8,648,588	8,865,668	9,133,411	9,432,531
4,086,310	Oadby & Wigston	17,558.70	4,358,600	4,468,000	4,602,934	4,753,681
3,650,631	Rutland	15,652.57	3,885,441	3,982,965	4,103,251	4,237,633
76,828,913		**330,081.36**	**81,936,162**	**83,992,758**	**86,529,341**	**89,363,186**
329,412	Council Tax Base		**330,081**	**331,732**	**335,049**	**339,237**

£	**Precept by Band**	*Apportionment*	£	£	£	£
155.4868	Band A	6/9	165.4868	168.7965	172.1725	175.6159
181.4013	Band B	7/9	193.0679	196.9293	200.8679	204.8853
207.3157	Band C	8/9	220.6491	225.0620	229.5633	234.1546
233.2302	Band D	9/9	248.2302	253.1948	258.2587	263.4239
285.0591	Band E	11/9	303.3925	309.4603	315.6495	321.9625
336.8881	Band F	13/9	358.5547	365.7258	373.0403	380.5012
388.7170	Band G	15/9	413.7170	421.9913	430.4312	439.0398
466.4604	Band H	18/9	496.4604	506.3896	516.5174	526.8478

£233.2302	**Band D Council Tax**	**£248.2302**	**£253.1948**	**£258.2587**	**£263.4239**
4.48%	% Increase	6.43%	2.00%	2.00%	2.00%
10.00	£ Increase	15.00	4.96	5.06	5.17
19.2p	**Increase per week in Pence**	**28.8p**	**9.5p**	**9.7p**	**9.9p**

Summary of Assumptions

Reduction in Core Grant Funding	0.00%	0.00%	0.00%	0.00%
Precept increases	6.43%	2.00%	2.00%	2.00%
Tax Base increases	0.20%	0.50%	1.00%	1.25%
Pay Inflation	0.00%	1.75%	2.00%	2.00%
Non-Pay Inflation	2.00%	2.00%	2.00%	2.00%

Budget Equalisation Reserve

	2021/22 £	2022/23 £	2023/24 £	2024/25 £
Balance B/Fwd	12,576,002	13,254,891	9,354,913	-
Transfers to BER (from General Reserve)	750,000			
Other Transfers from BER to fund the base	83,428			
Transfers from BER for specific purposes	(154,539)	(3,899,978)	(9,354,913)	-
Balance c/fwd	13,254,891	9,354,913	-	-

CAPITAL STRATEGY 2021/22

Introduction

This capital strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of policing services along with an overview of how associated risk is managed and the implications for future financial sustainability.

Decisions made this year on capital and treasury management will have financial consequences for the Policing Body for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

Capital Expenditure and Financing

Capital expenditure is where the Police and Crime Commissioner (PCC) spends money on assets, such as property, IT or vehicles that will be used for more than one year. The PCC has some discretion on what counts as capital expenditure, for example assets costing less than £10k are not capitalised and are charged to revenue in year.

In 2021/22, the Force is proposing capital expenditure of £8.5m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
Estates	3.4	2.6	1.1	0.2	0.1
IT	2.5	5.5	4.9	3.1	0.5
Fleet	0.8	2.4	1.5	1.3	1.3
Operational Equipment	0.2	-	0.1	-	-
ESN	-	-	0.6	5.2	-
Corporate Projects	0.9	-	0.3	-	-
TOTAL	**7.8**	**10.5**	**8.5**	**9.8**	**1.9**

The capital projects included in the expenditure above are detailed later in this report.

Governance: The Estates, IT and Transport Departmental Heads in conjunction with the business, bid annually during November for projects to be included in the Force's capital programme. Bids are collated by Corporate Finance who calculate the financing cost (which can be nil if the project is fully funded from other resources). The proposed capital programme has been reviewed by Chief Officers and the PCC's office. The final capital programme is then presented to the Strategic Assurance Board in January for approval.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the PCC's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2019/20 actual	**2020/21 forecast**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
External sources	1.3	1.0	0.9	0.2	0.2
Own resources	0.8	1.0	0.4	0.5	0.1
Debt	5.7	8.5	7.2	9.1	1.6
TOTAL	**7.8**	**10.5**	**8.5**	**9.8**	**1.9**

Where the commissioner finances capital expenditure through borrowing (debt) resources must be set aside to repay that debt from the revenue account. The amount charged to revenue account for the repayment of borrowing is known as the Minimum Revenue Provision (MRP). Planned MRP is as follows:

Table 3: Replacement of debt finance in £ millions

	2019/20 actual	**2020/21 forecast**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
Own resources	1.6	2.1	3.4	4.3	6.2

The Statutory Guidance issued by the DCLG sets out the 4 options for calculating the MRP. The recommended MRP policy is:

- For capital expenditure incurred before the 1st April 2008 (which was supported capital expenditure) the policy will be based on 4% of the Capital Financing requirement.

- From the 1st April 2008 for all unsupported borrowing the MRP policy will be the Asset Life Method (Equal instalment approach) – the MRP will be based on the estimated life of the assets.

The Commissioner's policy is to finance shorter life assets from capital receipts, grants and revenue contributions. Borrowing reserved generally for Land and Buildings with an expected life of 25 years and IT projects that cannot be financed from the PCC's own resources.

The PCC's cumulative outstanding 'debt finance' is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP repayments and capital receipts used to replace debt. The CFR is expected to increase by £3.9m during 2021/22. Based on the figures above for expenditure and financing, the PCC's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
TOTAL CFR	**28.6**	**34.9**	**38.8**	**43.6**	**39.0**

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. No capital receipts are expected to be received during 2021/22.

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the PCC's / Force's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The PCC is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, the PCC currently has £10.67m borrowing at an average interest rate of 4.85% and £27m treasury investments at an average rate of 0.01% (*as at 31st December 2020*)

Borrowing strategy: The PCC's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the PCC therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.10%) and long-term fixed rate loans where the future cost is known but higher (currently 1.5% to 2.5%).

Projected levels of the PCC's total outstanding debt (which comprises borrowing, PFI liabilities and leases) are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
Debt (incl. PFI & leases)	**12.4**	**19.2**	**26.3**	**34.3**	**35.8**
Capital Financing Requirement	**28.6**	**34.9**	**38.8**	**43.6**	**39.0**

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the PCC expects to comply with this in the medium term.

Liability benchmark: To compare the PCC's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level at each year-end. This benchmark is currently £26.3m and is forecast to rise to £46.3m over the next three years.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
Outstanding borrowing	**12.4**	**19.2**	**26.3**	**34.3**	**35.8**
Liability benchmark	**17.9**	**26.3**	**31.1**	**42.6**	**46.3**

The table shows that the PCC expects to remain borrowed below its liability benchmark.

Affordable borrowing limit: The PCC is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2020/21 limit	2021/22 limit	2022/23 limit	2023/24 limit
Authorised limit – borrowing	31.1	31.3	39.3	40.8
Authorised limit – Long Term Liabilities	2.5	2.5	2.5	2.5
Authorised limit – total external debt	33.6	33.8	41.8	43.3
Operational boundary – borrowing	28.6	28.8	36.8	38.3
Operational boundary – Long Term Liabilities	1.5	1.5	1.5	1.5
Operational boundary – total external debt	30.1	30.3	38.3	39.8

Treasury Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The PCC's policy on treasury investments is to prioritise security and liquidity over yield. That is to focus on minimising risk rather than maximising returns. Surplus cash is invested securely, for example with the government, other local authorities, selected high-quality banks and pooled funds, to minimise the risk of loss.

Table 9: Treasury management investments in £millions

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
Near-term investments	13.4	10.0	10.0	10.0	10.0
Longer-term investments	-	-	-	-	-
TOTAL	**11.9**	**10.0**	**10.0**	**10.0**	**10.0**

Risk management: The effective management and control of risk are prime objectives of the PCC's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Force's ACO (Resources) and staff, who must act in line with the treasury management strategy approved by the PCC. Half yearly reports on treasury management activity are presented to the Strategic Assurance Board.

Investments for Service Purposes

The PCC does not make any investments directly into local public services i.e buying shares or investing in local businesses to promote economic growth.

Commercial Activities

The PCC does not invest in any commercial property / activities.

Liabilities

In addition to current debt of £10.7m (*figure prior to new borrowing being taken for 2020/21*), the PCC is committed to making future payments to cover its LGPS pension fund deficit (valued at £10.7m) as set out by the scheme actuary. It has also set aside £0.8m to cover the risks of both the self insured public and employers liability claims where the PCC's claims handlers have advised there is a high probability of economic benefits being transferred and the successful claims in Allard v Devon and Cornwall Police for unpaid overtime following recalls to duty by covert human intelligence handlers. Leicestershire has identified when officers were on call and provisional costings have been calculated.

The current restrictions in place within the United Kingdom in response to Covid-19 have created issues for police forces in terms of policing the government lockdown policy in addition to continuing normal policing functions. This has given rise to additional costs in terms of overtime and providing personal protective equipment (PPE) to operational police officers and staff. However, the PCC has a Budget Equalisation Reserve of £11.9m (Balance as at 31/03/20) to support annual expenditure and manage the financial risks of major incidents (this is in addition to the General Fund Reserve of £5m). The net additional costs of Covid-19 for the year 2020/21 are forecast to be £0.7m representing less than 6% of this reserve. The Home Office has confirmed that the cost of both medical and non-medical graded PPE will be reimbursed, implemented a scheme to reimburse Force's for their loss of income due to covid-19, similar to local government and announced surge funding to assist with the cost of patrolling the government's restrictions from October onwards.

The Home Office are collecting information, on a monthly basis, from all 43 forces in England and Wales in respect of their additional Covid-19 costs and savings. Whilst the Home Office and Treasury has announced a number of support packages it is not yet known whether any additional funding will become available to meet the residual costs incurred. The PCC is planning to utilise the Budget Equalisation Reserve to meet the deficit.

Governance: The risk of liabilities crystallising and requiring payment is monitored by corporate finance and reported in the quarterly Budget Monitoring Report presented to the Strategic Assurance Board (SAB), if appropriate.

- Further details on liabilities are on pages 44, 60 and 65 of the 2020/21 statement of accounts.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax and core government grants.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2019/20 actual	**2020/21 forecast**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
Financing costs (£m)	2.1	2.8	4.0	5.0	7.0
Proportion of net revenue stream	1.12%	1.40%	1.87%	2.32%	3.22%

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 25 years into the future.

Proposed Capital Programme

A summary of the proposed Capital Programme for 2021/22 is shown in the table below.

Proposed Capital Programme 2021/22

Expenditure	**£000**	**Funding**	**£000**
Property	1,144	Capital Grant	200
Information Technology	4,928	Specific HO grants	420
Vehicle Fleet	1,510	Borrowing Requirement	7,180
Corporate Projects	338	Revenue Contributions	327
Emergency Services Network	575	3rd Party Contributions	368
Total	**8,495**	Total	**8,495**

The ‘Estates’ programme is based on the approved Estates Strategy and includes:

- The refurbishment of the Keyham Lane Annex
- An electrical upgrade to the IT server room
- Alterations to locker rooms at Melton Mowbray and the Firearms Unit at FHQ
- Provision for the purchase of the land at Coalville, should this proceed.

The IT programme includes:

- Investment in the data network and storage to ensure network performance and support new services.
- The Force has committed to the National Enabling Programme (NEP) Office 365 cloud service and 2021/22 will see the continued implementation, and the exploitation of the office 365 productivity tools.
- The Force is developing a cloud delivery strategy for provision of information systems and services. An upgrade to the Firewall is required due to the growth in internet traffic and further work is required in relation to the cloud landing zone to allow the Force to handle systems, services and data rated to OFFICIAL SENSITIVE in the public cloud with national assurance.
- Provision for the purchase of additional Body Worn Video capability
- The continuation replacement of the personal computer estate within the 5 year life cycle to support agile working.
- Various enhancements and upgrades to the communication system as part of the voice strategy moving the Force onto the latest technology.
- Replacement of the portable Interview Recording System (IRS) that are now end of life.
- The hardware supporting the regional Niche platform is nearing end of life and will need to be replaced.

Provision is also made for the rolling programme of Automatic Number Plate Recognition (ANPR) camera replacements (including vehicle fits), stage 2 of the Contact Management Department refurbishment (ergonomics) delayed from 2020/21, the purchase of a SCIU scanner and the preparatory work in relation to the roll out of the Emergency Service Network.

Planned replacements for the existing vehicle fleet and the cost of vehicle replacements below the insurance threshold as a result of accidents are also included.

The vehicle fleet budget is based on the replacement of the current fleet provision and does not allow for any changes in vehicle specifications as a result of changing operational requirements or the target operating model as these are currently being assessed. The national purchasing framework for vehicles has also expired and the new vehicle types and purchase prices, are not yet known.

Financing

The 2021/22 capital grant is £0.2m, similar to 2020/21. After the application of revenue contributions to capital schemes and the use of Section 106 funding, the 2021/22 borrowing requirement is **£7.180m**.

The Capital Programme assumes that the 2021/22 borrowing requirement of £7.180m is financed through loans from the Public Works Loan Board (PWLB). Revenue resources are set a side over the life of the asset to repay the borrowing.

Knowledge and Skills

The PCC / Force employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

Where staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The PCC currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the PCC / Force has access to knowledge and skills commensurate with its risk appetite.

Background Papers

Home Office Settlement Notification via the Home Office website.

TREASURY MANAGEMENT – INVESTMENT STRATEGY

Revised January 2021.

1. Introduction

1.1. Treasury Management is defined as the management of the Police and Crime Commissioner's (PCC) investments and cash flows, banking and financing of capital expenditure; the effective control of the risks associated with those activities, balanced against the relative performance.

1.2. A key activity of Treasury Management is to ensure that the cash flow is adequately planned, with cash being available when it is needed. Any surplus treasury management funds should be invested in low risk counterparties in line with the strategy of providing security of the capital and sufficient liquidity before investment return.

1.3. Capital financing decisions provide a guide to the borrowing need of the PCC. In essence, this involves longer term cash flow planning to ensure that capital spending obligations can be met. The management of the longer term cash balances may involve arranging long or short term loans or using longer term cash flow surpluses. On occasions any current loans may be restructured to meet the PCC's risk or cost objectives.

2. Statutory Requirements

2.1. The 'Code of Treasury Management' published by the Chartered Institute of Public Finance and Accountancy (CIPFA), and recommended by the Home Office, has been adopted by the Office of the Police and Crime Commissioner for Leicestershire ("the OPCC").

2.2. In 2018 CIPFA revised the Code and the Prudential Code for Capital Finance, the key changes being:

- The definition of 'Investments' in the revised TM Code now covers all the financial assets of the organisation, as well as other non-financial assets which the PCC may hold primarily for financial returns, such as investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations.
- A revised TM Code covers investments made for reasons other than treasury management with the requirement that these are proportional to the resources available and that the same robust procedures for the consideration of risk and return are applied to these investments.
- The Prudential Code, which also applies to police and fire authorities, recommends that a Capital Strategy is produced giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

2.3. In addition, the Ministry of Housing, Communities and Local Government (MHCLG) issued revised guidance on Local Authority investments in February

2018 that requires the PCC to approve an investment strategy before the start of each financial year. Investments now include all the financial assets and those non-financial assets held primarily or partially to generate a profit, including investment property and loans to subsidiaries and third parties.

2.4. This report fulfils the OPCC's legal obligations under the Local Government Act 2003 to have regard to both the CIPFA Code and MHCLG guidance in relation to treasury activity.

2.5. The Treasury Management Strategy is approved annually to run from 1st April to the following 31st March but can be revised at any time during the year.

2.6. The Local Government Act 2003 included capital regulations that applied from 1st April 2004. These regulations allow the OPCC freedom to borrow to fund capital expenditure provided it has plans that are affordable, prudent and sustainable. The requirements are covered in the Prudential Code.

3. Treasury Management Strategy

3.1. The OPCC has potentially large exposure to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the OPCC's treasury management strategy.

3.2. Uncertainty in the financial markets is likely to continue during the remainder of 2020/21 and 2021/22 as a result of the impact on the UK from Coronavirus, the exit from the European Union and future trading arrangements. The Bank of England (BoE) expects the economy to shrink by -2% in Quarter 4 of 2020 and rise to 7.25% by 2021. However, BoE forecasts the economy to take until Q1 2022 to recover to pre-pandemic levels. The bank rate is currently 0.10% (as at December 2020).

3.3. This has resulted in a decrease in the interest rates available when investing surplus funds.

3.4. The PCC's treasury management advisors Arlingclose are forecasting that the BoE Bank Rate will remain at 0.10% until at least the end of 2023.

3.5. The core aim of the Treasury Management Strategy is to have an appropriate balance of borrowing and investments, in keeping with the principles of affordability and prudence and maintaining longer-term stability. The OPCC's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

3.6. The OPCC has appointed Arlingclose as treasury management advisers to provide specific borrowing and investment advice as well as capital financing, technical and accounting advice.

Managing daily cash balances and investing surpluses

3.7. In order that the OPCC can maximise income earned from investments, the target for the uninvested overnight balance in the current account is a maximum of £15,000.

3.8. At any one time, the OPCC has between £5m and £40m (depending on the cash flow) available to invest. This represents income received in advance of expenditure plus balances and reserves.

3.9. Currently most of the PCC's surplus cash is invested in short term unsecured bank deposits and money market accounts.

Credit Rating Agencies

3.10. There are three main credit rating agencies that provide a view on the credit worthiness and security of financial institutions.

3.11. The three credit rating agencies are:
- Fitch
- Standard and Poor's
- Moody's

Their range of ratings for financial institutions are as follows, the full range of long term credit ratings is included at the end of this report:

Credit Rating Agency	Highest long-term investment grade rating	Lowest long-term investment grade Rating
Fitch	AAA	BBB-
Standard and Poor's	AAA	BBB-
Moody's	Aaa	Baa3

3.12. The previous policy allowed for funds to be invested in the following institutions:

Institution	Maximum Loan £m	Maximum Period of Loan	Long-term Ratings at *December 2020 Fitch / Moody's / S&P
Royal Bank of Scotland PLC	3.0	364 days	A+ / A1 / A
Lloyds Bank PLC	3.0	364 days	A+ / A1 / A+
Barclays Bank PLC	3.0	364 days	A+ / A1 / A
HSBC Bank PLC	3.0	364 days	AA- / A1 / A+
Nationwide Building Society	3.0	364 days	A+ / A1 / A
Debt Management Office	No limit	364 days	UK sovereign obligation

3.13. We have employed the services of Treasury Management Advisers Arlingclose who monitor, on a continual basis, the ratings provided to financial institutions and indeed countries where those institutions are based.

3.14. They provide this information on a regular basis and alert clients if there are changes to any of the ratings as well as tailoring their advice based on other information they have at their disposal and further checks that they carry out.

3.15. Before making investments the current ratings of the financial institution where the investment is to be made will be checked to ensure that they are within the limits set within this treasury management strategy.

3.16. Security of investment remains the priority ahead of investment returns.

Revised Credit Ratings

3.17. The OPCC defines "high credit quality" as those organisations and securities having a credit rating of:

- A- or higher that are domiciled in the UK
- A- or higher that are domiciled in a foreign country with a sovereign rating of AA+
- A- or higher for Money Market Funds

3.18. The limits set out above will ensure that investments can be made in more financial institutions, but security of investment is not compromised.

3.19. This treasury management strategy also seeks to broaden the investment instruments that can be used. The following investment instruments can be used when investments are made:

Unsecured Bank Deposits

3.20. This includes investments in call and notice accounts, deposits, certificates of deposit and senior unsecured bonds with UK and non-UK banks and UK building societies with high credit quality as defined above.

3.21. These investments are nevertheless subject to the risk of credit loss via a "bail-in" should the regulator determine that the bank is failing or likely to fail. The counterparty list is determined by the treasury advisor based on various criteria including, but not limited to, credit ratings and other credit metrics, as well as research.

3.22. Investment limits will be set by reference to the lowest published long-term credit rating from the major rating agencies (Fitch, Moody's or Standard & Poor's). Investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account. Information on all of the credit ratings is clearly summarised by Arlingclose which sets out the institutions that can be invested in according to the set criteria.

Secured Bank Deposits

3.23. Investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in.

3.24. These are 'designated investments' which can be transacted by Professional Clients under MiFID II. As at March 2019 we have been re-classified as a professional client and therefore these instruments have become available

Government

3.25. This will include loans to and bonds/bills issued by or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in risk. Bonds and bills are also a designated investment tool and therefore can only be used if we are re-classified as a professional client.

3.26. Investments in non-UK national Governments will be subject to them having a minimum sovereign rating of AA+

3.27. Investments with the UK Central Government may be made in unlimited amounts for up to 10 years. The UK's Debt Management Office currently takes loans for periods up to 6 months.

3.28. A very small number of local authorities are credit rated and their long-term ratings range from AA to A+.

3.29. The security for loans to UK local authorities stems from the local government finance framework, creditor protections and likelihood of central government support (or intervention for those facing particular budgetary challenges).

3.30. Loan principal along with any interest due is charged on the revenues of the borrowing authority. All loans rank equally including those from the PWLB, banks and other local authorities, without any priority.

3.31. No investments will be made to a local authority where a S114 Notice has been issued and is still in operation.

Pooled Funds

3.32. Collective investment schemes, generally referred to as pooled funds, have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee.

3.33. Short-term Money Market Funds (MMFs) that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts.

3.34. Pooled funds whose values change with market prices and/or have a notice period will be used for longer investment periods for that element of the OPCC's funds which can be invested for periods in excess of 12 months. Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term.

3.35. These allow diversification into asset classes other than cash without the need to own and manage the underlying investments. The risk and reward characteristics of these funds and their appropriateness for the OPCC's investment portfolio and time frames will be carefully considered in conjunction with advice from the treasury advisor.

3.36. The funds' performance and continued suitability in meeting the investment objectives will also be monitored regularly.

3.37. Pooled funds will only be utilised following specific advice from the OPCC's Treasury Advisers and after consultation with the OPCC's S151 officer and the Chief Constable's S151 officer.

3.38. Some of these funds can only be transacted by 'Professional' clients under MiFID II. As a professional client we would be able to use some of these funds.

3.39. In the event that cash balances are available for more than one year, the OPCC will seek to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. Pooled funds can help towards achieving this aim.

Risk Assessment and Credit Ratings

3.40. Credit ratings are obtained and monitored by the Commissioner's treasury advisers, who will notify the OPCC and the force finance team of ratings and changes as they occur.

3.41. Where an entity has its credit rating downgraded so that it fails to meet the OPCC's approved investment criteria then:

- no new investments will be made in that entity
- any existing investments that can be recalled or sold at no cost will be
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

3.42. In these circumstances' advice will be sought from the treasury advisers and the OPCC/Force's S151 officer will be consulted with regard to the next steps to be taken.

Summary of Amounts and Durations of Investments

Credit rating	**Banks/Building Societies unsecured**	**Banks/Building Societies secured**	**Government including LAs**
UK Govt	n/a	n/a	£ Unlimited 10 years
AAA, AA+, *AA, AA*-	£3m 3 years	£3m 4 years	£3m 5 years
A+	£3m 2 years	£3m 3 years	£3m 3 years
A	£3m 13 months	£3m 2 years	£3m 2 years

A-	£3m 6 months	£3m 13 months	£3m 13 months
None	£1m 6 months[1]	n/a	*£3m* *13* *months*[2]
Pooled funds	£3m per fund		

Note: The durations highlighted in the table are maximum durations for investments. However, the recommended durations will vary on a regular basis depending on what is happening in the market. These recommended durations are contained within the regular credit rating updates provided by Arlingclose and will be used for the day to dealings.

Other information on the security of investments

3.43. The OPCC understands that credit ratings are good, but not perfect, indicators of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

3.44. The OPCC and force finance team will rely upon the treasury management advisers to highlight and communicate emerging issues on counterparties as a matter of urgency.

Investment Limits

3.45. The OPCC's General Fund revenue reserves available to cover investment losses were £5 million on 31st March 2020. In order that available reserves are not put at risk in the case of a single default and taking into account the in-year level of cash balances, the maximum that will be lent to any one organisation (other than the UK Government) will be £3 million.

3.46. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

3.47. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Borrowing

3.48. The OPCC currently holds a £10.7m loan with the Public Works Loans Board (PWLB)

[1] Some Building Societies do not apply for a credit rating. However, in the opinion of our Treasury Advisers they are as secure as the A- rated banks. Strictly speaking they are an unrated, nevertheless we may wish to consider investing some of our funds with them. These are the only investments in unrated financial institutions that will be authorised.

[2] Most local authorities are included in this category as they do not have an official rating but are seen as a secure investment option. Authorities subject to a S114 notice will not be invested in.

3.49. Capital expenditure forecasts show that the PCC expects to borrow up to £8.5m over the remainder of 2020/21.

3.50. The main objective when borrowing funds is to strike a balance between securing low interest costs and achieving certainty of those costs over the period for which the funds are required.

3.51. The strategy continues to address the key issues of affordability. With short-term interest rates currently lower than long term rates, it is likely to be more effective in the short-term to either use internal resources, or to borrow short-term loans instead.

3.52. By borrowing internally, the OPCC is able to reduce net borrowing costs (despite forgone investment income) and reduce overall treasury risk. The benefits of internal versus external borrowing will continue to be monitored.

3.53. In addition, the OPCC may borrow short term loans to cover unplanned cash flow shortages.

3.54. The recommended sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- UK Local Authorities
- Any bank or building society authorised to operate in the UK

3.55. Whilst the OPCC has previously raised all of its long term borrowing from the PWLB other options will be explored at the point of borrowing to ensure that the most favourable rates and terms are secured.

3.56. Short term and variable rate loans can leave the OPCC exposed to the risk of short term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the Treasury Management Indicators

3.57. Arlingclose will assist the PCC with borrowing analysis. Its output may determine whether or not the PCC borrows additional sums at long-term fixed rates in 2021/22 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

3.58. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current redemption rates determined by the PWLB. These often lead to high premium costs on premature redemption. The OPCC and its treasury advisers will nevertheless keep the loan portfolio under review during the remainder of 2020/21 and 2021/22 to see whether a saving could be achieved on the overall interest costs

3.59. The PCC will not borrow more than or in advance of its needs purely in order to profit from the investment of extra sums borrowed. Any decision to borrow in advance will be within the forward approved Capital Financing Requirement estimates and will be considered carefully to ensure value for money can be demonstrated and the PCC can ensure the security of such funds

4. Latest Position regarding Treasury Management

4.1. The banking sector continues to show signs of instability alongside the wider economy. Exposure to individual institutions will be diversified by counterparty and also through the use of Money Market Funds (where appropriate) in which the underlying investments are very highly spread and also very liquid. This is in keeping with the OPCC's stated aim of protecting the principal (cash) amount.

4.2. Funds are placed with institutions based on (a) available headroom and (b) rate of return – this is a daily decision-making process. A balance is struck between the desired level of return and the need to provide liquid funds to meet the OPCC's obligations i.e. supplier payments, payroll costs and tax liabilities.

4.3. Continued monitoring of institutions' credit ratings and other credit metrics takes place and is reported to Strategic Assurance Board throughout the year via the "Treasury Management Performance" report.

4.4. The Bank of England has reduced the bank rate to 0.1% and the PCC's Adviser Arlingclose is forecasting that the Bank Rate will remain at 0.1% until the end of 2023. Future policy rate increases are not, however, guaranteed and a lot hinges on the economy's strength and the inflation outlook after the country's potential withdrawal from the EU and recovery from the Pandemic.

4.5. On this basis the investment income budget Rate has been set at £10,000 for 2021/22.

Financial Year	Interest Income	Comments
2016/17	£0.07m	Actual
2017/18	£0.05m	Actual
2018/19	£0.10m	Actual
2019/20	£0.15m	Actual
2020/21	£0.01m	Forecast
2021/22	£0.01m	Budget

4.6. Given the continued uncertainty in the economy an ongoing review of the Treasury Management Strategy will be undertaken during 2021/22 to review whether there are other investment options available.

5. Borrowing Limits

5.1. In accordance with the Prudential Code it is a requirement that the OPCC set borrowing limits for the next three years and upper limits on fixed and variable interest rate exposures. These limits are intended to reduce risk. It is proposed that the limits should be as follows:

		2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
(i)	Total authorised borrowing limit*	31.1	31.3	39.3	40.8
(ii)	Long term liabilities	2.5	2.5	2.5	2.5

*includes headroom for short term borrowing - £1m for each year

5.2. The interest rate risk indicator is set to control the OPCC's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rate will be:

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£(120,245)
Upper limit on one-year revenue impact of a 1% fall in interest rates	£(75,755)

The impact of change in interest rates calculated on the assumption that maturing loans and investments will be replaced at current rates.

5.3. The Prudential Code also recommends that the Police and Crime Commissioner sets upper and lower limits for all of its borrowing to control exposure to refinancing risk. The following limits are proposed: -

	Upper Limit	Lower Limit
Under 12 months	50%	0%
Between 12 months and 24 months	50%	0%
Between 24 months and 5 years	50%	0%
Between 5 years and 10 years	65%	0%
Between 10 years and 15 years	65%	0%
Over 15 years	100%	0%

5.4. The purpose of the upper and lower limit is to make sure that the debt portfolio is diversified appropriately over different durations to ensure that not too much borrowing is maturing at the same time and therefore subject to market conditions at the point of maturity.

6. Principal sums invested for long periods longer than 364 days

6.1. The purpose of this indicator is to control the exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2020/21	**2021/22**	**2022/23**
Limit on principal invested beyond year end	£2m	£2m	£2m

7. Changes to the Treasury Management Strategy

7.1. The Treasury Management Strategy can be amended in year by the S.151 officer of the OPCC who will have consulted with the Police and Crime Commissioner and the Force's ACO (Resources) prior to making any changes. Any changes will be the subject of a formal decision record.