

# JOINT MANAGEMENT BOARD



**Date:** Wednesday 27 January 2021

**Time:** 10am

**Venue:** Virtual Meeting via Skype

Any member of the public who wishes to observe this meeting is asked to register their interest by midday on Tuesday 26 January 2021 via email [police.crime.commissioner@cheshire.pnn.police.uk](mailto:police.crime.commissioner@cheshire.pnn.police.uk). A link to enable access to the meeting and joining instructions will then be provided to all attendees in advance of the meeting.

## AGENDA

### *Part 1 - Public Items*

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### *Part 2 - Private Items*

*The following matters will be considered in private as they involve the likely disclosure of exempt information as defined in the Freedom of Information Act 2000, in accordance with the section indicated below:*

<b>Item</b>	<b>Section</b>
<i>Part 2 Minutes of Meeting held on 13 January 2021</i>	(31) <i>Law Enforcement</i> (43) <i>Commercial Interests</i>
<i>Management Board Action Log</i>	(31) <i>Law Enforcement</i> (43) <i>Commercial Interests</i>
<i>Forward Plan</i>	(31) <i>Law Enforcement</i> (43) <i>Commercial Interests</i>

<b>5 PART 2 MINUTES OF MEETING HELD ON 13 JANUARY 2021</b>	<b>-</b>
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**For further information about this Agenda, please contact:  
Matt Walton on 01606 364000 or Mandy Guest on 01606 365036**

**MINUTES OF THE MANAGEMENT BOARD HELD ON 13 JANUARY 2021  
MEETING HELD VIA SKYPE VIDEOCONFERENCE CALL**

*Present:* D Keane, Police & Crime Commissioner  
D Martland, Chief Constable

*Office of the Police & Crime Commissioner*

P Astley, Chief of Staff  
C Hodgson, Director of Finance  
M Walton, Head of Governance & Compliance  
C Tozer, Head of Engagement & Policy  
J Park, Operational Support Officer

*Cheshire Constabulary*

J Cooke, Deputy Chief Constable  
J Gill, Assistant Chief Officer  
D Bryan, Head of Legal  
P Woods, Head of Planning & Performance  
W Bebbington, Head of Finance

One member of the public was in attendance to observe Part 1 of the meeting.

***Part 1 - Public items***

**1. MINUTES OF MEETING HELD ON 16 December 2020**

The minutes of the meeting held on 16 December 2020 were approved.

**2. FCIN (FORENSIC COLLISION INVESTIGATION NETWORK) S22 COLLABORATION AGREEMENT**

In 2012, the Forensic Science Regulator (FSR) directed that all police forces' Forensic Collision Investigation functions must be compliant with the FSR's Code of Practice and Conduct and the ISO 17020 standard. The deadline for compliance is October 2021 with an extended deadline of October 2022 for any Forces who are part of a national Forensics Collision Investigation Network ("FCIN") Collaboration.

In July 2019, all forces gave a commitment to support the FCIN Collaboration in developing the scientific methods centrally and to realise a programme to bring the specialism into a single Network of best practice. The Network would also facilitate the accreditation process of all its members.

North Wales Police is to act as Host Force for the FCIN and a proposed Collaboration Agreement (based on the nationally approved APACE template) has been circulated for signature. The report presented sought approval from the Commissioner and Chief Constable for Cheshire Constabulary to approve the terms of, and enter into, the FCIN Collaboration Agreement and become a participating force in the FCIN Collaboration.

The Commissioner and Chief Constable approved the following recommendation:

- 1) That Cheshire approve the terms of, and enter into, the FCIN Collaboration Agreement and become a participating force in the FCIN Collaboration.

The rationale was that the FCIN collaboration enables the Constabulary to benefit from a collaborative approach to forensic collision analysis through economies of scale and ability to develop the service to meet future need. The governance elements contained within the agreement enable the Commissioner and Chief Constable to monitor and influence the Collaboration to ensure it delivers a service which best meets the needs of Cheshire communities.

### **3. JOINT STRATEGIC RISK REGISTER**

The Commissioner's and the Chief Constable's Joint Strategic Risk Register was presented for consideration and approval.

The Commissioner and Chief Constable approved the following recommendation:

- 1) The Joint Strategic Risk Register, risk analysis and action overview, be approved.

The rationale was to ensure that the effective management of strategic risk supports the delivery of high quality policing services.

DRAFT

**MANAGEMENT BOARD**

**DECISION NO. 2021/03**

**DATE: 27 JANUARY 2021**

**TREASURY MANAGEMENT STRATEGY 2021/22**

**Executive Summary:**

To present the Treasury Management Strategy for 2021/22 for approval including the associated prudential indicators, annual investment strategy and minimum revenue provision statement.

**Recommendation:**

That approval be given to the Treasury Management Strategy (Appendix 1) for 2021/22 including:

- the Ratio of financing costs to net revenue funding (Appendix 1, paragraph 4.5.2);
- the Authorised External Debt Limits (Appendix 1, paragraph 5.2.7);
- the Interest Limits and Maturity structure of fixed interest rate borrowing (Appendix 1, paragraph 5.7.1);
- the Annual Investment Strategy (Appendix 1, paragraph 6); and
- the Minimum Revenue Provision Statement (Appendix 1, paragraph 7).

I have reached the following decision:

Approval of the recommendation.

My rationale for this decision is:

The adoption of the Treasury Management Strategy supports my commitment to ensure effective stewardship and the efficient use of public funds.

**Signature**

**Date 27 January 2021**



**Police & Crime Commissioner**

## **PART 1 – NON-CONFIDENTIAL FACTS AND ADVICE**

### INTRODUCTION AND BACKGROUND

1. Treasury Management covers the cashflow, investment and borrowing activities together with the impact of budgetary decisions on such activities. The Commissioner is required to approve an annual Treasury Management Strategy, its associated prudential indicators, an Annual Investment Strategy and a Minimum Revenue Provision Statement. These documents have links to the budget and medium term financial strategy. The documents are set out in the Appendix.
2. Borrowing is restricted to financing capital expenditure but is not statutorily limited by amount. The level of borrowing is set by each organisation but under recommended boundaries, which recognise future capital plans over a three year period and the impact any borrowing will have on revenue funding. To ensure that these boundaries are not exceeded, an Authorised Limit (paragraphs 5.2.5 to 5.2.7) is set for all capital financing liabilities including borrowing, leasing and PFI schemes. It is calculated based on current borrowing and financing arrangements together with the year on year movements and the impact of future capital financing requirements. This is a statutory limit and requires approval from the Commissioner.
3. With all forms of financing there is a cost implication usually in the form of interest. Fluctuations in interest rates have a direct impact on the revenue budget and therefore boundaries are recommended on the exposure to such risks. There are two prudential indicators included in the attached Strategy - the 'Interest rate limits' and 'Maturity structure of fixed interest rate borrowing'. The first limits the amount of borrowing that can be undertaken with variable interest rates. These rates may be attractive when rates are falling but can prove costly if rates start to rise. It is proposed that this is limited to 25% of the overall borrowing. The second indicator is designed to ensure that maturity profile of the loans is not concentrated into a short period of time leaving the organisation exposed to the prevailing interest rates at that point. The proposed profile spreads the risk over a suitable timeframe.
4. The cashflow of funding and expenditure and the level of reserves held result in cash available for temporary investment. Such investments earn interest which in turn supports the revenue budget. A number of high profile events have identified the risks associated with such activity and an Annual Investment Strategy is included within the overall Treasury Management Strategy setting out what types of investments are permitted, the means by which counter-parties are chosen and the limits in amounts to be exposed to any individual organisation or group. This Strategy follows the principles of Link Asset Services investment guidance which is monitored daily and only those meeting the minimum requirement are chosen as counter-parties. Link are the Commissioner's Treasury Management advisers. A limit of £10m is applied to each organisation or group. While this Strategy cannot negate all risks it does follow the principle of security first, liquidity next and yield last in terms of investment decisions.

5. Finally, borrowing has to be repaid and there is a requirement to set aside funding each year to meet the repayments. This set aside funding is called the Minimum Revenue Provision and a statement showing how it has been calculated is included in the attached Strategy. The Commissioner is asked to approve this Statement.

#### FINANCIAL COMMENTS

6. All financial issues are covered within the Appendix.

#### LEGAL COMMENTS

7. The attached Strategy covers the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Department of Communities and Local Government's Minimum Revenue Provision (MRP) Guidance, the CIPFA Treasury Management Code and the Department of Communities and Local Government's Investment Guidance.

#### EQUALITY COMMENTS

8. A full impact assessment is not required as it is considered that the outlined Strategy will not disproportionately adversely affect any protected characteristic community as defined in the Equality Act 2011.

#### **Public access to information**

*Information in this form is subject to the Freedom of Information Act 2000 and other legislation. Part 1 of this form will be made available on the PCC website within 3 working days of approval. Any facts/advice/recommendations that should not be made available on request should not be included in Part 1 but instead on the separate Part 2 form.*

Is there a Part 2 form - No

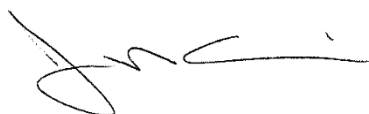
Contact Officer: Wendy Bebbington, Head of Finance

Tel. No.: 01606 362035 Email: [wendy.bebbington@cheshire.pnn.police.uk](mailto:wendy.bebbington@cheshire.pnn.police.uk)

#### **CHIEF OFFICER DECLARATION (Assistant Chief Officer - Julie Gill):**

*I have reviewed the proposal and I am satisfied it is correct, all relevant internal checks have been undertaken and it is consistent with the PCC's Police & Crime Plan and priorities.*

**Signature**



**Date 27 January 2021**

**CHIEF FINANCE OFFICER DECLARATION (Clare Hodgson):**

*I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the presentation of this report. I am satisfied that this is an appropriate request to be submitted to the Police & Crime Commissioner.*

**Signature**



**Date 27 January 2021**

## TREASURY MANAGEMENT STRATEGY 2021/22

### 1. BACKGROUND

- 1.1 The Police & Crime Commissioner (the Commissioner) is required to operate a balanced budget meaning that cash raised during the year from grants, council tax and other income sources will match the cash expenditure for the year. The first requirement of treasury management is to ensure that this cashflow is adequately planned with cash being available when it is needed. Surplus funds are invested in low risk counterparties or financial instruments commensurate with a low risk appetite, that offer adequate liquidity (i.e. ease of access) before considering any return on the investment. The investment strategy objectives are, in order of priority, security, liquidity and then yield.
- 1.2 The second main function of treasury management is the funding of the capital programme. The capital programme and plans provide a guide to the Commissioner's borrowing requirement which is essentially the longer-term cashflow planning to ensure that the capital programme commitments can be met. The management of longer-term cashflow may involve arranging long or short-term loans or by using cashflow surpluses. Any debt currently held may also be re-structured when favourable conditions arise and in line with risk and/or cost objectives.
- 1.3 The contribution treasury management makes to the organisation is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 1.4 CIPFA defines treasury management as:
- 'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'*
- 1.5 The CIPFA 2017 Prudential and Treasury Management Codes require the preparation of a Capital Strategy providing a longer-term focus to capital plans including:
- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
  - an overview of how the associated risk is managed
  - the implications for future financial sustainability

The capital strategy is being reported separately as part of the annual budget report pack.

1.6 This Commissioner has not engaged in any commercial investments and has no non-treasury investments.

## 2. **TREASURY MANAGEMENT REPORTING REQUIREMENTS**

2.1 The Commissioner is required to receive and approve, as a minimum, three main reports each year which incorporate policies, estimates and actual income and expenditure.

**Prudential and Treasury Indicators and Treasury Strategy** (this report) – the first and most important report covering:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy statement (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised and includes the treasury indicators); and
- an Investment Strategy (the parameters on how investments are to be managed).

**A Mid-Year Treasury Management Report** – this updates the Commissioner on the progress of the capital position, updates prudential indicators as necessary and whether the actual execution of treasury management is in line with the Strategy or whether any policies need revision. Should there be a particularly volatile period affecting treasury management then more frequent reports will be submitted.

**An Annual Treasury Management Report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

## 3. **TREASURY MANAGEMENT STRATEGY 2021/22**

3.1 The Treasury Management Strategy covers two main areas:-

Capital:

- The capital plans and associated prudential indicators; and
- The minimum revenue provision (MRP) statement.

Treasury Management:

- The current position;
- Prudential indicators which limit the treasury risks and activities of the Commissioner;
- Prospects for interest rates;
- The borrowing strategy;
- The policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- The policy on creditworthiness; and
- The policy on using external service providers in relation to Treasury Management.

- 3.2 The above cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Communities and Local Government’s Minimum Revenue Provision (MRP) Guidance; the CIPFA Treasury Management Code and the Communities and Local Government’s Investment Guidance.
- 3.3 The CIPFA Treasury Management Code requires the responsible officer (the Chief Finance Officer/Director of Finance, OPCC) to ensure that anyone with responsibility for treasury management receives adequate training. The external treasury management supplier will provide suitable training during the year as appropriate.
- 3.4 The Commissioner uses Link Asset Services, Treasury solutions as its external treasury management advisors. However, it is recognised that responsibility for treasury management decisions remains with the Office of the Police & Crime Commissioner (OPCC) at all times and overdue reliance will not be placed upon one source of advice alone. Nevertheless, it is also recognised that there is value in employing external advisors in order to gain access to specialist skills and resources.

4. **CAPITAL EXPENDITURE PRUDENTIAL INDICATORS 2021-24**

4.1 **Capital expenditure**

- 4.1.1 Capital expenditure plans are a key driver of treasury management activity. The funding of such plans impact on cash balances and borrowing requirements in the short and longer terms. The on-going consequences of these decisions have a direct impact on the annual revenue budget. As such, the following prudential indicators show the proposed capital expenditure plans, how they are to be funded, the impact on the organisation’s finances and their affordability in terms of the impact on revenue budgets.
- 4.1.2 This prudential indicator is a summary of the Commissioner’s capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. These are based on actual and forecast 2020/21 cash spend along with the planned future capital programme.

*Table 1: Capital Expenditure*

<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>	<b>2023/24 Estimate £000</b>
6,632	9,397	10,853	3,324

- 4.2 The next table shows how the above capital expenditure is to be financed. Where there is a shortfall in available funds, the shortfall is covered by an additional borrowing requirement. It is anticipated that additional borrowing will be required over the period, however through pro-active management of the internal borrowing position it is anticipated that actual new external borrowing required over the period will total £5m as shown in table 6.

- 4.3 An updated Estates Strategy is currently being jointly developed between the Constabulary and the OPCC. It is recognised that any changes to the estates footprint may require additional capital financing and this would be the subject of a business case being approved through the appropriate governance structure. As specific business cases are approved and funding identified these will be added into this strategy.

*Table 2: Capital Financing*

<b>2020/21 Estimate £000</b>		<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>	<b>2023/24 Estimate £000</b>
6,632	Forecast Spend	9,397	10,853	3,324
	<u>Financed by:</u>			
173	General capital grants	173	0	0
32	Specific capital grants	94	0	0
2,251	Capital Receipts	275	0	0
3,004	Capital Reserves & Revenue Contributions	3,003	6,135	3,000
221	HQ IT Reserve	221	221	221
951	Borrowing requirement	5,631	4,497	103

#### 4.4 Capital Financing Requirement (or borrowing needs)

- 4.4.1 The second prudential indicator is the Commissioner's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been financed either from revenue or capital funds. It is essentially a measure of borrowing need and any capital expenditure not financed in the above table will increase the CFR.

*Table 3: Capital Financing Requirement (CFR)*

<b>2019/20 Actual £000</b>	<b>2020/21 Estimate £000</b>		<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>	<b>2023/24 Estimate £000</b>
30,066	29,597	Borrowing Requirement	33,735	36,500	34,155
18,447	17,380	Other long term liabilities	16,223	15,006	13,643
<b>48,513</b>	<b>46,977</b>	<b>Total CFR</b>	<b>49,958</b>	<b>51,506</b>	<b>47,798</b>
<b>(1,707)</b>	<b>(1,538)</b>	<b>Movement in CFR</b>	<b>2,982</b>	<b>1,548</b>	<b>(3,709)</b>

- 4.4.2 In addition to the capital expenditure borrowing requirements, the Capital Financing Requirement also includes other long-term financial liabilities relating to Constabulary Headquarters. Whilst these increase the CFR and therefore the Commissioner's borrowing requirement, these types of scheme include a borrowing facility and so the Commissioner is not required to borrow separately for these schemes.

- 4.4.3 The Capital Financing Requirement is reduced every year by the minimum revenue provision (MRP). The Commissioner is required by statute, to set aside MRP each year for the repayment of external debt. Under amendment regulation 4(1) of the 2008 Regulations, the Commissioner is charged with a simple duty to set aside MRP which he considers to be prudent. Guidance has been issued which sets out recommendations on the interpretation of 'prudent' and the Commissioner is required to prepare an annual statement on how he proposes to calculate MRP. The 2021/22 annual statement is set out in the Annex.
- 4.4.4 It should be noted that the Capital Financing Requirement remains fairly stable during the period of the current Strategy, reflecting the fact that the new borrowing requirement is offset by our annual MRP provision and the ongoing reduction in Other Long Term Liabilities (Residual PFI liability).

#### 4.5 Core Funds and Expected Investment Balances

- 4.5.1 The application of funds, (capital receipts, reserves etc.), to finance capital expenditure or other budget decisions to support the revenue budget will have an on-going impact on the cash available for investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are the estimated year-end balances for reserves. The Capital Receipts and Unapplied Capital Grants reserves are restricted in their usage to funding capital expenditure or repaying debt and cannot be used for revenue purposes.

*Table 4: Reserves*

	31 March 2020 Actual £000	31 March 2021 Estimate £000	31 March 2022 Estimate £000	31 March 2023 Estimate £000	31 March 2024 Estimate £000
<b><u>Revenue Earmarked Reserves</u></b>					
MTFS Reserve	2,151	2,151	2,151	2,151	2,151
Carry Forward Reserve	1,803	250	150	0	0
Redundancy Reserve	782	782	782	782	782
POCA Reserve	437	0	0	0	0
Hardship Loan Reserve	50	50	50	50	50
Pay and Pensions Reserve	830	500	250	0	0
Mortgage Guarantee Scheme Reserve	500	500	500	500	500
	6,553	4,563	4,133	3,733	3,483
<b><u>Capital Earmarked Reserves</u></b>					
Capital Receipts	2,526	275	0	0	0
Revenue Reserve for Capital Expenditure	177	456	150	0	0
Unapplied Capital Grants	0	0	0	0	0
Emergency Services Network Reserve	485	1,267	2,420	0	0
IT Reimbursement Reserve	0	0	0	0	0
	3,188	1,998	2,570	0	0
<b><u>Revenue General Reserve</u></b>					
General Fund	5,773	5,773	5,773	5,773	5,773
<b><u>Collaboration Reserves</u></b>	1,779	1,437	1,240	1,240	1,240
<b>Total Reserves</b>	<b>17,293</b>	<b>13,771</b>	<b>13,716</b>	<b>10,746</b>	<b>10,496</b>

## Affordability Prudential Indicators

- 4.5.2 So far the Strategy has covered the control of overall capital expenditure plans and borrowing prudential indicators. The following indicator provides an indication of the impact of the above capital expenditure plans and their financing proposals on the overall finances and precept (council tax). The Commissioner is requested to approve the following indicator:

*Table 5: Ratio of financing costs to net revenue funding*

<b>2019/20 Actual</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>
1.17%	1.18%	1.17%	1.30%	1.63%

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream. The estimates of financing costs include current commitments and the proposals included in the budget/medium-term financial strategy. The ratio is increasing due to the significant reduction in available capital grant funding since the start of austerity and the requirement to increase borrowing in order to finance the capital programme from 2018/19 onwards. The affordability of this will therefore continue to be reviewed alongside the MTFS.

## 5. BORROWING

- 5.1 The capital expenditure plans set out in Section 4 provide details of the service activity of the Commissioner. A key function of treasury management is to ensure that the cash resources are organised in accordance with the relevant regulations and professional codes so that sufficient cash is available to meet service activity and the capital strategy. This will involve both cashflow management and where capital expenditure plans require it, the arrangement of appropriate borrowing facilities. This Strategy covers the relevant treasury and prudential indicators, the current and projected debt positions and the Annual Investment Strategy.

### Current Debt Position

- 5.1.1 The current debt position, as at 31 March 2020, with forward projections is summarised below. The table shows actual external debt against the underlying capital borrowing need highlighting any internal borrowing or over borrowing.

*Table 6: Debt Position*

<b>2019/20 Actual £000</b>	<b>2020/21 Estimate £000</b>		<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>	<b>2023/24 Estimate £000</b>
26,778	27,873	External Debt as 1 April	27,873	30,373	32,774
1,095	0	Add/(less): net movement in year	2,500	2,401	(2,356)
19,441	18,447	Other Long-term Liabilities	17,380	16,223	15,006
(993)	(1,067)	Add/(less): net movement in year	(1,157)	(1,217)	(1,364)
46,320	45,253	Gross Debt Position at 31 March	46,596	47,780	44,060
48,513	46,976	Less: Capital Financing Req't	49,958	51,506	47,798
(2,193)	(1,723)	Internal Borrowing	(3,362)	(3,726)	(3,738)

- 5.1.2 Within the prudential indicators there are a number of key indicators to ensure that the Commissioner operates his activities within well-defined limits. One of these is that the Commissioner ensures that his gross debt does not, except in the short-term, exceed the total Capital Financing Requirement in the preceding year plus the estimates for any additional Capital Financing Requirement for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future plans when favourable conditions allow, but ensures that borrowing is not undertaken for revenue or speculative purposes.
- 5.1.3 The Director of Finance confirms that the Commissioner complied with this prudential indicator in the current year and does not envisage any issues for the immediate future. This view takes into account current commitments, existing plans and the proposals included in the budget report and Medium Term Financial Strategy for 2021-26 to be approved by Joint Management Board on 27<sup>th</sup> January 2021.

## 5.2 Treasury Indicators – limits to borrowing activities

- 5.2.1 There are two limits to borrowing, the operational boundary and the authorised limit for external debt. These are the current debt position as shown in 5.1.1 above plus the forecast requirement for external financing over the next three years.
- 5.2.2 **The operational boundary** is the limit which external debt and long-term liabilities is not normally expected to exceed. In most cases this would be a similar figure to the Capital Financing Requirement but may be higher or lower depending on the level of actual debt and repayment schedules. Temporary breach of the operational boundary is not in itself cause for concern but an indicator that such liabilities should be reviewed. If there was a sustained breach, (such as an increase in long-term borrowing), then this would need to be investigated and action taken.
- 5.2.3 The operational boundaries below are based on estimating the Commissioner’s most likely level of borrowing and leasing each year. It includes long-term borrowing to fund capital expenditure plans, short-term temporary borrowing for cashflow purposes and the impact of any finance leases.

*Table 7: Operational Boundary*

	<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>	<b>2023/24 Estimate £000</b>
Debt	38,373	40,873	40,774
Other long term liabilities	16,223	15,006	13,643
<b>Total</b>	<b>54,596</b>	<b>55,879</b>	<b>54,417</b>

- 5.2.4 As Table 7 shows, the Operational Boundary over the period 2021-24 remains fairly constant because the new long term borrowing over the period is offset by the Other Long Term Liabilities (Residual PFI Liability) which is reducing.

- 5.2.5 The **authorised limit for external debt** is a further key prudential indicator representing a control on the maximum level of borrowing. This represents a limit beyond which external debt and finance leases are prohibited and is set or revised by the Commissioner. It reflects the level of such debt which, while not desired, could be afforded in the short term but is not sustainable in the longer-term.
- 5.2.6 This is a statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authorities' plans or those of any specific public body; although this power has yet to be exercised.
- 5.2.7 The Commissioner is requested to approve the following authorised limits.

*Table 8: Authorised Limit*

	<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>	<b>2023/24 Estimate £000</b>
Debt	41,873	43,873	43,774
Other long term liabilities	16,223	15,006	13,643
<b>Total</b>	<b>58,096</b>	<b>58,879</b>	<b>57,417</b>

### 5.3 Prospects for Interest Rates

- 5.3.1 The Commissioner has appointed Link Asset Services as its treasury advisor and part of their service is to assist him to formulate a view on interest rates. The following table gives our central view.

Link Group Interest Rate View 9.11.20														
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
<b>BANK RATE</b>	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

Source: Link Asset Services

- 5.3.2 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 5th November, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary.

- 5.3.3 As shown in the forecast table above, no increase in Bank Rate is expected in the forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged.
- 5.3.4 There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years.
- 5.3.5 Over the year prior to coronavirus, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.
- 5.3.6 Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds.
- 5.3.7 However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.
- 5.3.8 As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

## Investment and borrowing rates

- Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.
- Borrowing interest rates fell to historically very low rates as a result of the coronavirus crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 2020/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 1% in PWLB rates on top of the then current margin over gilt yields in October 2019 required an initial major rethink of local authority treasury management strategy. As a consequence of these increases in margins, the Commissioner decided to refrain from new PWLB borrowing, if possible, until such time as the additional 1% margin was removed.
- On 25 November 2020, the Chancellor announced the conclusion to a review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme.
- While the Commissioner will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.
- As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates remain at historic lows. The Commissioner will assess his borrowing requirement in conjunction with budgetary pressures to reduce total interest costs and long term borrowing will be undertaken for the purpose of certainty, and to secure long term favourable interest rates at the appropriate time.

### 5.4 Borrowing Strategy

- 5.4.1 As shown in Table 6, the Commissioner is currently utilising internal borrowing and forecast to remain so for the period covered by this Strategy. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loan debt as cash supporting the Commissioner's reserves, balances and cash flow has been used as a temporary measure. This Strategy is appropriate for the current economic scenario and prudent given that limited investment return on surplus cash flow and counter-party risk are still issues that need to be considered.
- 5.4.2 As previously reported, as capital reserves and therefore cash resources available are being used to fund the ongoing capital programme, historic internal borrowing levels are no longer sustainable. Action has therefore been taken to reduce under-borrowing during recent years and the position at 31 March 2020 was £2m internally borrowed and is now targeted to remain at between £3m-£4m internally borrowed through until 2024. At this point maintaining internal borrowing at c£3m-£4m going forward is considered to be manageable and a sensible position in view of almost non-existent returns that can be achieved on cash balances invested.

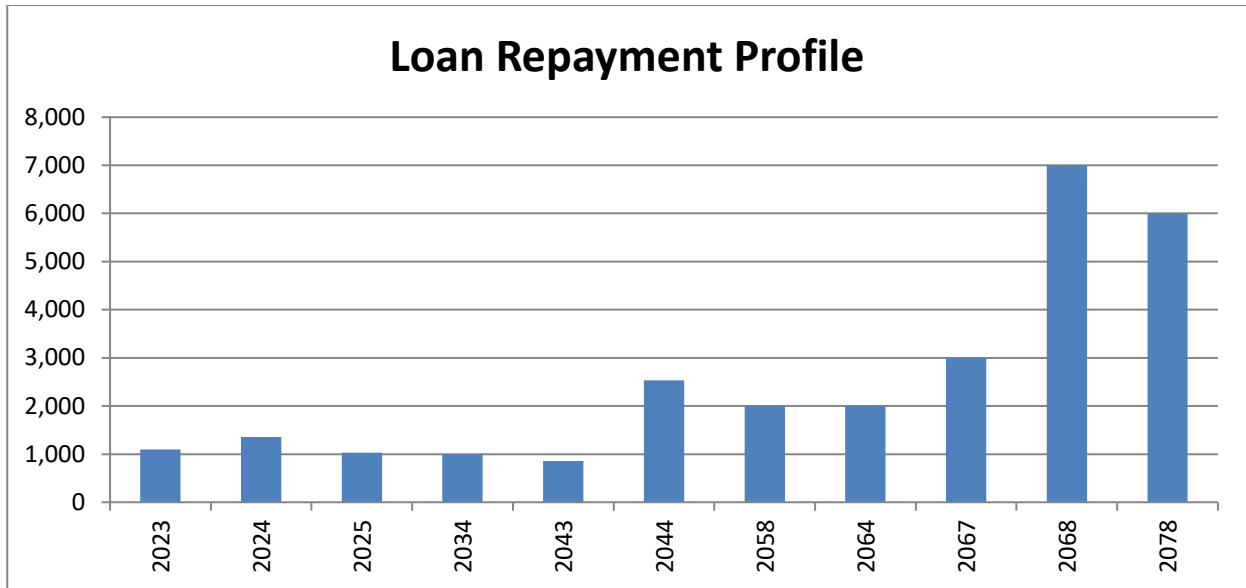
- 5.4.3 Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Commissioner's Director of Finance will keep interest rates and the cashflow impact under continual review in order to adopt a pragmatic approach to changing circumstances, supported by advice from the external Treasury Management advisers.
- 5.4.4 A key aim of the borrowing strategy is to minimise the cost of the loan portfolio whilst ensuring that the obligation to repay the loans is spread out over a period of time. This reduces the impact of such loans on the revenue budget. The profile of the repayment of the debt portfolio is shown below at 5.6.3.
- 5.4.5 New long term borrowing is currently planned during the life of this strategy. Where short term borrowing arrangements are required to support a temporary low general fund bank balance, the Commissioner will engage his Treasury Advisors to understand if there are any Local Authority counterparties available to borrow from. The offer will then be considered and terms of loans agreed between the Director of Finance and nominated officer from the lending organisation.

## **5.5 Policy on borrowing in advance of need**

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

## **5.6 Debt Rescheduling**

- 5.6.1 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However these savings will need to be considered in the light of the current treasury position and size of the cost of debt repayments (premiums incurred).
- 5.6.2 The reasons for any rescheduling to take place will include:
- The generation of cash savings and/or discounted cash flow savings
  - Helping to fulfil the treasury strategy
  - Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
- 5.6.3 Any potential rescheduling will be very carefully considered. A Table showing the current profile of the debt portfolio is shown below:



5.6.4 The majority of the borrowing is on a fixed rate basis with the current overall weighted average of 3.48%, unchanged from January 2020 as no new long term borrowing has been required during 2020. There is one loan held, (£6m), that is subject to semi-variable interest rates and has six monthly review periods when the bank can amend the rate or, the Commissioner can repay the loan if the new rate is deemed unacceptable. Any new loans taken out for future capital expenditure plans or the repayment of maturing debt will be subject to the rates applicable at that time. Any early repayment of debt would also be subject to the expense of early pay-back premiums.

5.6.5 Key sensitivities of the interest rate forecast are likely to be:

- if it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be reviewed with the potential action of increasing borrowing to cover the under borrowed position or future known commitments or repayments while rates were still relatively low; and
- If it were felt that there was a significant risk of a sharp fall in short and long-term interest rates due to a weakening of economic factors; then longer-term borrowing will be postponed until rates were deemed at their lowest and a review of current debt would be undertaken to ascertain the benefit of rescheduling to more competitive short term loans.

## 5.7 Treasury Management limits on activity

5.7.1 There are three debt-related treasury activity limits. Their purpose is to restrain borrowing activity within certain limits to manage risk and reduce the impact of adverse movement in interest rates. However, if these are set too restrictively they will impair the opportunity to reduce costs or maximise value for money. The Commissioner is requested to approve the following indicators and limits.

*Table 9: Interest Rate Limits*

	2021/22	2022/23	2023/24
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	25%	25%	25%

*Table 10: Maturity structure of fixed interest rate borrowing 2021/22*

	Lower	Upper
Under 12 months	0%	15%
12 months to 2 years	0%	15%
2 years to 5 years	0%	25%
5 years to 10 years	0%	25%
10 years and above	50%	95%

## 6. ANNUAL INVESTMENT STRATEGY

### 6.1 Investment Policy

6.1.1 The Commissioner's investment policy has regard to the Communities and Local Government's Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes (the CIPFA TM Code). The Commissioner's principal objectives for investments are security first, liquidity next and finally yield.

6.1.2 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

- a) Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- b) Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Commissioner will engage with his advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
- c) Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- d) The Commissioner has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in table 11 below under the categories of 'specified' and 'non-specified' investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

*Table 11: Approved Investment Instruments*

Specified Investments (maturities up to one year)
<ul style="list-style-type: none"> <li>▫ Bank &amp; Building Societies Term Deposits</li> <li>▫ Other Local Authority Term Deposits</li> <li>▫ Debt Management Agency Deposit Facility</li> <li>▫ AAA Money Market Funds (CNAV/LVNAV/VNAV)</li> </ul>
Non-Specified Investments (maturities over one year)
<ul style="list-style-type: none"> <li>▫ Bank &amp; Building Societies Term Deposits</li> <li>▫ Other Local Authority Term Deposits</li> </ul>
Other Non-Specified Investments
<ul style="list-style-type: none"> <li>▫ Fixed term deposits with variable rates &amp; maturities</li> </ul>

- e) Non-specified investments limit. The Commissioner has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio.
- f) Lending limits, the maximum amount for each counterparty will be set at £10m per organisation/group. The maximum investment duration for each counterparty will be set in line with the creditworthiness service provided by Link Asset Services as set out in paragraph 6.2.
- g) The Commissioner will set a limit for the amount of its investments which are invested for longer than 365 days, (see paragraph 6.4.5).
- h) Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see paragraph 6.3).
- i) The Commissioner has engaged external consultants, (see paragraph 3.4), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
- j) All investments will be denominated in sterling.

As a result of the change in accounting standards for 2020/21 under IFRS 9, the Commissioner will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023)

## 6.2 Creditworthiness Policy and Exposure to Risk

6.2.1 The Commissioner utilises the creditworthiness service provided by Link Asset Services as his Treasury Management advisers. This service employs a sophisticated modelling approach incorporating credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps to give early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

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

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour Not to be used

6.2.3 As this methodology uses a wide range of information beyond basic credit ratings, it ensures that no one source of information is given undue credence. All ratings and colour codes are monitored weekly via Link's credit listings and in-between via business press. The Commissioner is alerted to changes to any ratings via email from Link.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Commissioner's minimum criteria, its further use as a new investment will be withdrawn immediately and any current investments reviewed for potential movement.

6.2.4 Sole reliance will not be placed on the use of this external service. In addition to Link, the Commissioner's officers will also use market data and information, information on any external support for banks to help support its decision making process.

## 6.3 Country Limits

6.3.1 The Commissioner has determined that he will only use approved counterparties from the UK and from countries outside of the UK with a minimum sovereign credit rating of AAA from Fitch (or equivalent). The list will be added to, or deducted from, should ratings change.

## 6.4 Investment Strategy

- 6.4.1 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most of the Commissioners cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.
- 6.4.2 The Commissioner would seek to maintain at all times a core liquid balance of £4m, and maintain a liquid balances vs longer term balances ratio of 50% - 50%.
- 6.4.3 For its cash flow generated balances, the Commissioner will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.
- 6.4.4 Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future. Bank Rate forecasts for financial year ends (March) are:

2020/21 – 0.10%	2021/22 – 0.10%	2022/23 – 0.10%	2023/24 – 0.10%
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- 6.4.5 The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines can be widely administered to the population. It may also be affected by the implications of the agreed UK Brexit deal.
- 6.4.6 There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

### Negative Interest Rates

- 6.4.7 While the Bank of England said in August/September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 - 12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the Covid crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

6.4.8 As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

6.4.9 Investment treasury indicator and limit - total principal funds invested for greater than 365 days. This limit is set with regard to the Commissioner’s liquidity requirements and to reduce the need for early sale of an investment. It is based on the forecast availability of funds after each year-end. The Commissioner is asked to approve the following treasury indicator and limit:

*Table 12: Investment Treasury Limit:*

	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
Principal sums invested for longer than 365 days	Nil	Nil	Nil

**6.5 End of Year Investment Report**

6.5.1 At the end of the financial year, a report on the Commissioner’s investment activity as part of the Annual Treasury Report, will be presented to the Joint Management Board.

## 7. MINIMUM REVENUE PROVISION (MRP) STATEMENT

- 7.1 All local authorities have a legal requirement to set aside money to cover the repayment of debt. The amount of MRP charged needs to be a prudent amount. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either, reasonably commensurate with that over which the associated capital expenditure provides benefits.
- 7.2 At the end of 2017/18, around 50% of the non PFI related Capital Financing Requirement related to the balance of historic supported debt liability. The Commissioner has determined that this historic element of the CFR will be charged MRP at the rate fixed as 2% of the balance at 31 March 2018. The Commissioner considers this approach to be more prudent as it will ensure that the CFR will be cleared over a finite 50 year period rather than the previous 4% per year reducing balance method which would technically never clear the debt. The remaining amount will, under delegated powers (known as prudential borrowing), be subject to MRP under option 3 of the Guidance, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building will be related to the estimated life of that building.
- 7.3 The use of this option for certain schemes/expenditures will also result in a nil MRP charge until the year after that in which all expenditures on the scheme, project or other item of capital expenditure have been fully accrued under proper accounting practices, regardless of the extent of such expenditure that has not been accrued at the end of the previous financial year. Assets will not be transferred to the asset register and non-current assets account until complete, in accordance with standard accounting principles.
- 7.4 Estimated life periods will be determined under delegated powers. To the extent that expenditures are not on the creation of an asset and are of a type that are subject to estimated life periods that are referred to in the Guidance, these periods will generally be adopted by the Commissioner. However, in the case of long-term debtors arising from loans or other types of capital expenditure made by the Commissioner which will be repaid under separate arrangements, no MRP will be made. The Commissioner is satisfied that a prudent provision will be achieved after exclusion of these capital expenditures.
- 7.5 In view of the variety of different types of capital expenditure incurred by the Commissioner, which is not in all cases capable of being related to an individual asset e.g., capitalising revenue items; asset lives will be assessed on the basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components having substantially different useful economic lives.
- 7.6 The policy will be reviewed on an annual basis. If it is ever proposed to vary the terms of the original statement during any year, approval from the Commissioner will be required.

**MANAGEMENT BOARD**

**DECISION NO. 2021/04**

**DATE: 27 JANUARY 2021**

**MEDIUM TERM FINANCIAL STRATEGY 2021 - 2026**

**Executive Summary:**

The Commissioner is required to set an annual budget and precept (the Commissioner's share of Council Tax) taking into account Government funding, precept regulations and organisational demands. This requirement is supported by the production of a Medium Term Financial Strategy (MTFS) with the annual budget forming the first year of the Strategy. The creation and maintenance of the MTFS is fundamental in promoting good financial planning and delivery of value for money.

The MTFS is supported by the Reserves Strategy which highlights the reserves held, their usage in support of delivering the Police & Crime Plan and operational objectives and the appropriateness of the amounts held.

Based on the Provisional Grant Settlement announced on 17 December 2020 setting out the funding and precept flexibility for 2021/22 only, the MTFS has been updated as set out in appendix 1.

**Recommendation:**

(1) That the Medium Term Financial Strategy for 2021-2026 be approved.

I have reached the following decision:

Approval of the recommendation.

My rationale for this decision is:

The Medium Term Financial Strategy 2021-2026 is fundamental in promoting good financial planning, the delivery of value for money, ensuring operational threats and risks are addressed and managed to protect front line policing and make Cheshire's communities safer.

**Signature**

**Date 27 January 2021**



**Police & Crime Commissioner**

## **PART 1 – NON-CONFIDENTIAL FACTS AND ADVICE**

### INTRODUCTION AND BACKGROUND

1. The Medium Term Financial Strategy (MTFS) for 2021-2026 sets out the current financial scenario based on a series of assumptions including funding levels from Government grants and precepts; inflation and known commitments. It is based on the Home Office's Provisional Grant Settlement announced on 17 December 2020. The assumptions included within the MTFS have been updated in response to the settlement, grant announcements and other known amendments.
2. The revised MTFS is attached at Appendix 1.

### LEGAL COMMENTS

3. There are no legal implications directly arising from this report.

### EQUALITY COMMENTS

4. There are no equality issues identified.

### BACKGROUND DOCUMENTS

Document Titles
The 2021/22 Budget and Council Tax report
The 2021/22 Provisional Grant Settlement

#### **Public access to information**

*Information in this form is subject to the Freedom of Information Act 2000 and other legislation. Part 1 of this form will be made available on the PCC website within 3 working days of approval. Any facts/advice/recommendations that should not be made available on request should not be included in Part 1 but instead on the separate Part 2 form.*

Is there a Part 2 form - No

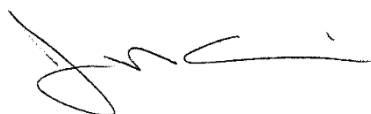
Contact Officer: Wendy Bebbington, Head of Finance

Tel. No.: 01606 362035      Email: [wendy.bebbington@cheshire.pnn.police.uk](mailto:wendy.bebbington@cheshire.pnn.police.uk)

#### **CHIEF OFFICER DECLARATION (Assistant Chief Officer - Julie Gill):**

*I have reviewed the proposal and I am satisfied it is correct, all relevant internal checks have been undertaken and it is an appropriate request to be submitted to the Police & Crime Commissioner.*

**Signature**



**Date 27 January 2021**

**CHIEF FINANCE OFFICER DECLARATION (Clare Hodgson):**

*I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the presentation of this report. I am satisfied that this is an appropriate request to be submitted to the Police & Crime Commissioner.*

**Signature**



**Date 27 January 2021**

## MEDIUM TERM FINANCIAL STRATEGY 2021 TO 2026

### 1. INTRODUCTION

- 1.1. The purpose of the Medium Term Financial Strategy (MTFS) is to provide the Police & Crime Commissioner, Chief Constable, officers, staff, the public and other stakeholders with information on the financial outlook and the estimated available financing over the next five years. The strategy takes into account future high level potential revenue and capital expenditure over the period based upon current information.
- 1.2. In setting the Police and Crime Plan 2016-2021 ([www.cheshire-pcc.gov.uk/what-i-do/making-cheshire-safer/police-and-crime-plan/](http://www.cheshire-pcc.gov.uk/what-i-do/making-cheshire-safer/police-and-crime-plan/)), the Commissioner listened carefully to what the public told him was important for the police service as well as speaking to partners and listening to the Chief Constable on the emerging policing threats for our county.
- 1.3. The Plan sets out a vision for the years 2016-2021 in which Cheshire will have a Constabulary focused on community policing and putting victims first. The legacy will be a police service fit for the future which is connected with, based within and accessible to local communities – real community policing. This plan lies at the heart of the Medium Term Financial Strategy.
- 1.4. In addition to the Commissioner's Police and Crime Plan there are two further key documents that support the MTFS. Firstly, is the Force Management Statement which is a self-assessment that Chief Constables prepare and give to Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) each year. It is the Chief Constable's statement and explanation of:
  - the demand the force expects to face in the next four years;
  - how the Constabulary will change and improve its workforce and other assets to cope with that demand;
  - how the Constabulary will improve its efficiency to make sure the gap between future demand and future capability is as small as it can reasonably be; and
  - the money the Constabulary expects to have to do all this.
- 1.5. As such the MTFS and Force Management Statement are integral to each other. One to provide details on the demand and shape of the Constabulary going forward and the other to reflect the monetary impact.
- 1.6. Secondly, is the Strategic Policing Requirement (SPR). This was first issued in July 2012, in accordance with Section 77 of the Police Reform and Social Responsibility Act 2011. This requirement supports Commissioners and Chief Constables to ensure they fulfil forces' national responsibilities as follows:
  - helps Police and Crime Commissioners, in consultation with their Chief Constable, to plan effectively for policing challenges that go beyond their force boundaries;
  - guides Chief Constables in the exercise of these functions; and
  - enables and empowers Police and Crime Commissioners to hold their Chief Constable to account for the delivery of these functions.

## 2. THE BUDGET STRATEGY 2021/22

2.1. With the above plans, statements and objectives in mind, the purpose of this strategy is to provide a basis for determining:

- The level of funding available in the future to deliver national and local priorities;
- The future demands upon the revenue budget;
- The impact of external factors;
- The financial implications of collaborations;
- The amount of capital investment which is required to achieve corporate objectives;
- The revenue consequences of such capital investment;
- The future reserve levels;
- The impact of additional demands on the level of council tax; and
- The main financial risks facing the organisation.

2.2. The above determines the level of funding and demands on finances over the MTFS period enabling strategic financial planning processes to address the challenges and outcomes. The following set out the key principles for that planning process:

- Ensure that plans contribute to improved outcomes in support of set priorities with Community Policing and a 'We Care' philosophy at the heart of service delivery;
- Set a comprehensive, timely, balanced and realistic budget;
- Take into account pay and price inflation and achievability of savings;
- Complies with the approved treasury management strategy;
- Complies with the approved reserves strategy;
- Raise awareness of and communicate key financial messages both internally and externally;
- Ensure budgets set are affordable and do not jeopardise financial stability either in the short or long term;
- All spending plans will need to demonstrate that they can achieve value for money;
- Spending will be agreed only when the necessary funding is identified and approved;
- External funding will be sought wherever it can be used in a sustainable manner that does not lead to unforeseen costs; and
- Budget proposals will be publicised and consulted upon with stakeholders in an open and transparent manner.

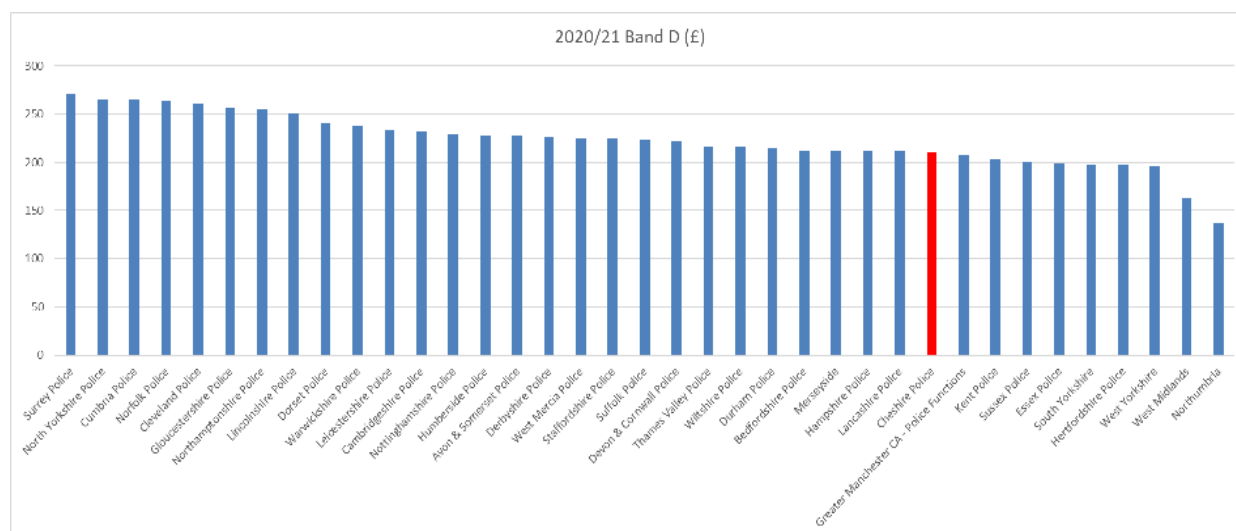
## 3. FINANCIAL SCENARIO

3.1. It is imperative that the MTFS takes account of the regional, national and global economic climates and the short to medium term impact of the coronavirus pandemic both in service delivery and financial outlook.

3.2. The Commissioner receives his main funding from two sources – Government grants and local council tax (known as a precept). The Minister of State (Minister for Crime and Policing) on the 17 December 2020 presented a Written Ministerial Statement setting out police funding for 2021/22 together with the capping rules for local council tax precept increases.

- 3.3. The Government's provisional police funding settlement for 2021/22 stated that the overall funding for the policing system will total up to £15.8 billion. Within this, available funding to Police and Crime Commissioners will increase next year by up to an additional £703 million, assuming full take-up of precept flexibility.
- 3.4. The additional funding includes an increase of £415 million to Government grants for the recruitment of a further 6,000 additional officers by the end of March 2022, the second year of the Police Uplift Programme (PUP). To ensure that progress in recruitment is maintained, and to track the use of this investment efficiently, the Government will continue to ring-fence £100 million of the additional funding.
- 3.5. As part of this settlement the Government has also set out its expectations of policing with the following:
- 6,000 further officers – on top of the first tranche of 6,000 to be recruited in 2020/21 – recruited by the end of March 2021
  - £120m of efficiency savings from across the law enforcement sector – which are reflected in the funding set out as part of the settlement – delivered in 2021/22
  - Policing needs to ensure that high quality data is collected and utilised effectively to support local delivery, identify efficiencies and support the National Policing Board's drive to deliver the best possible policing outcomes for the public
- 3.6. As set out as part of the Provisional Settlement, Commissioners will also be able to raise further funding through precept flexibility, subject to confirmation at the final Local Government Finance Settlement. Commissioners will be empowered to increase their Band D precept by up to £15 in 2021/22, without the need to call a local referendum. If all Commissioners decide to maximise their flexibility, this would result in up to an additional £288 million of funding for local policing next year. It is for locally accountable Commissioners to take decisions on local precept.
- 3.7. Based on the above provisional settlement, pension grant, PUP grant and with a maximum increase of £15 per year for Band D, this potentially provides Cheshire with funding of £219.8m in 2021/22 – an estimated £11.99m increase of which £5.8m (nearly half) will come from local taxpayers. However, this is based on the assumption that the Commissioner will increase the council tax precept by a maximum permitted.
- 3.8. As mentioned in the Provisional Settlement, the second main source of funding is precept. A precept is levied on the Council Tax for the policing in Cheshire and it is the responsibility of the Commissioner to set the level of precept as part of the annual budget setting process. To calculate the level of funding, each local authority calculates the taxbase (the assimilated number of council tax bills issued) taking into account changes in the number of houses, council tax benefits, discounts etc. These vary each year and the MTFS includes assumptions for these changes based on discussions and forecasts supplied by the local authorities.
- 3.9. As a result of the coronavirus pandemic, the taxbases have, for the first time, fallen in some cases due to increases in benefits claimed, anticipated collection rate and bad debt provisions, all of which impact on the taxbase calculation. As a result the amount of funding from the council tax precept will be less than previously forecast – whether the amount charged is increased or not. This is being carefully monitored with the four local authorities.
- 3.10. To aid understanding of the context in which the precept is set, the actual level of council tax levied by each Police & Crime Commissioner for 2020/21 is shown below (Band D equivalent). Cheshire still has one of the lowest ten band D equivalent charges of all forces nationally.

**Chart 1: Comparison of Police Force 2020/21 Precept Levels**



3.11. Each year Council Tax income is calculated based on assumed levels of collection rates by the local authorities. This means that, at the end of each year, an adjustment has to be made to reflect the actual collection rates. This can lead to a one-off surplus or deficit on the fund which is accounted for within the calculation of the following year’s net budget requirement, but the actual amounts are not declared until mid-January each year. Given the impact of the pandemic on the economy and therefore, on the ability of local authorities to recover council tax, there is a clear risk to the collection funds achieving their forecast income levels. In past MTFSSs, there has been an assumption included that each of the four local authorities would declare surpluses for which the Commissioner would receive his share - which has always been over achieved. However, this is no longer appropriate under the current pandemic and as such, the MTFSS has been updated reflect the forecast deficits, spread over three years in line with the Government’s regulations.

#### 4. FINANCIAL ASSUMPTIONS

4.1. The level of expenditure incurred increases each year based on a number of factors such as pay awards, inflation, changing priorities and additional demands or burdens. The following lists the financial assumptions that are included within the current MTFSS:

- Pay inflation – as part of the Provisional Settlement, the Government has ‘paused’ public sector pay rises for 2021/22 with the exception of some of the NHS and those earning less than £24k who will receive a £250 uplift. While there is an expectation that pay awards will be reinstated from 2022/23 the levels are now anticipated to be lower and the MTFSS has been amended to reflect this. Cheshire is a Living Wage Foundation employer.
- Local Government Pension Scheme (LGPS) employer contribution increases are included in line with the previous actuarial review. The current actuarial review was completed in March 2019 with no change to the employer rate for the next three years. Beyond then a maximum uplift of 0.5% is forecast in line with the Pension Fund policy of not changing rates higher than 0.5% in any year.
- Police Pension Scheme - The Government Actuary Department (GAD) valuation reported the employer’s rate increases from 22.1% to 31% in April 2019. As part of the 2019/20 Government Settlement, general funding was increased to meet approximately half of these additional costs with a specific pension grant to cover the remaining increase. The 2021/22 settlement also included the pension grant at the same amount, but there is no indication as to whether this will

continue. For the purpose of this MTF5 the assumption is that this grant will continue due to the impact the outcome will have on forces should it cease.

- Price inflation – in line with the Office of National Statistics (Consumer Price Index - CPI) and known specific increases where applicable, for example contractual increases.
- Borrowing – additional borrowing is required to meet the planned capital programme, although the exact timing will depend on spend and interest rate movement. Interest payable is based on forecast interest rates per Link, the Commissioner’s professional Treasury Management Advisors. Additionally, funding (known as the Minimum Revenue Provision or MRP) has to be set aside to repay debt over time and as new borrowing is undertaken this amount will increase. Estimated MRP amounts have also been built into the figures in this MTF5.
- Funding – in terms of Government funding post 2021/22, there is no certainty. A spending review is forecast for 2021 but with the impact of Covid on the economy and the national debt level, the actual economic outlook remains challenging. As such the MTF5 currently shows no increase to funding outside of precept options.

## 5. FINANCIAL CHALLENGES

- 5.1. The way in which Information Technology is procured is changing. In the past, software and its associated hardware would be funded through capital and the costs spread over the number of years it was to be utilised. This gave access to capital funding including grants, capital receipts and borrowing (although the latter has impact on the revenue budget). Since the creation of Cloud based software, most are now purchased as ‘software as a service (SaaS)’ which is more of a subscription based approach and as such, no longer eligible for capital funding. This has placed additional annual burdens on the revenue budget and continues to do so as we move further into digital policing. This fundamental change in expenditure has yet to be recognised in Government funding and therefore, has to be accommodated within existing budgets or through savings.
- 5.2. The planned move to a new National Emergency Services Network (ESN) is a major Government led project currently experiencing significant delays and challenges, which will have impact on both local and national financing, expenditure and funding plans. It is inevitable that there will be a mixture of new equipment costs, savings opportunities and impacts on future national funding levels which are still unknown at this point. Currently the MTF5 does provide for significant investment in new equipment and its funding which will be necessary upon transfer to the new network. It should be recognised, however, that the final costs could be significantly higher and funding would need to be clarified at that point.
- 5.3. As part of the review of expenditure and in line with the Commissioner’s objective of a police service fit for the future, a set of Estates Principles have been devised to support the development of a medium to long term updated Estates Strategy that maintains policing in the heart of the community, supports collaborative working and maximises the efficiencies of digital working. This is a 10 year plan and will provide efficiency savings within the MTF5 period, but these are not yet quantified either in financial terms or timescale.

## 6. FINANCIAL FORECASTS 2021-26

- 6.1. It is important to note that the MTF5 is a high level strategy document which summarises plans over the medium term as they stand based upon current projections and assumptions. As additional updated information becomes available these plans will be subject to change and updated

accordingly. A certain amount of detailed budget information is presented and this should be regarded as indicative and illustrative. It is also assumed that any significant growth will be matched by appropriate savings each year. This document will inform the Commissioner's budget setting process, as will other tools such as consultation with residents.

- 6.2. Based on current information, priorities and assumptions, the following table sets out indicative budgets for 2021 to 2026 recognising the volatility and uncertainty of funding and the flexibility or not afforded to Commissioners to uplift the council tax.
- 6.3. All scenarios assume that Cheshire's share of the 20k Uplift Officers and their associated costs are fully funded by Government grant. Should this not be the case, any shortfall will increase the budget gaps shown.

<b>Table 1 – MTFS Revenue Budgets</b>	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Base budget (Gross)	229,432	235,000	242,842	245,727	248,690
Inflation	975	2,358	3,243	3,314	3,370
Police Uplift Programme	5,720	5,500	0	0	0
Commitments & Proposed Growth	5,848	345	505	755	800
<b>Gross Expenditure</b>	<b>241,975</b>	<b>243,203</b>	<b>246,590</b>	<b>249,796</b>	<b>252,860</b>
Government grant	-122,215	-122,215	-122,215	-122,215	-122,215
Council tax - Precept	-85,825	-87,780	-90,606	-93,509	-96,860
Council tax - Collection Fund	223	301	301	0	0
<b>Net Budget Requirement</b>	<b>-207,817</b>	<b>-209,694</b>	<b>-212,520</b>	<b>-215,724</b>	<b>-219,075</b>
Income and specific grants	-34,368	-32,847	-32,906	-32,966	-33,027
Transfer to/(from) reserves	-242,185	-242,541	-245,426	-248,690	-252,102
	1,465	-301	-301	0	0
<b>Total Funding</b>	<b>-240,720</b>	<b>-242,842</b>	<b>-245,727</b>	<b>-248,690</b>	<b>-252,102</b>
<b>Savings required</b>	<b>1,255</b>	<b>361</b>	<b>863</b>	<b>1,106</b>	<b>758</b>

- 6.4. Please note that all of the budget gaps are pre the additional growth pressures set out in paragraphs 5.1 to 5.3 and therefore will increase when amounts are known and the MTFS updated accordingly.

## 7. RISKS & SENSITIVITY ANALYSIS

- 7.1. As with any assumptions there are risks that the actual outcome will be different. There are three key assumptions included within this MTFS that could impact significantly upon the figures presented in tables 1a and 1b. These are the level of Government funding, the amount of council tax payable towards local police funding and the level of pay awards agreed nationally. As such the following details the financial impact of changes to the levels assumed in these tables. It is also important to note that these changes would be cumulative as they represent a change to base level funding.

- For each change of 0.5% in the level of government funding, the impact would be either a reduction or increase in the budget gap of £0.6m.
- For every 0.5% increase or decrease in council tax would have a potential impact of £0.4m per annum.
- Within the MTFS, there is an assumption that the council taxbase will marginally increase each year in line with local authorities forecasts but, with the impact of the coronavirus pandemic there is a risk that this may not materialise. A 0.5% overall increase in the taxbase results in £0.4m of additional funding.

- A 0.5% movement in the pay award would have a potential £0.8m impact on the budget gap.

7.2. To put the above figures into context, a reduction in funding of £0.1m per annum would equate to a reduction of two police constables per annum based upon average salary costs.

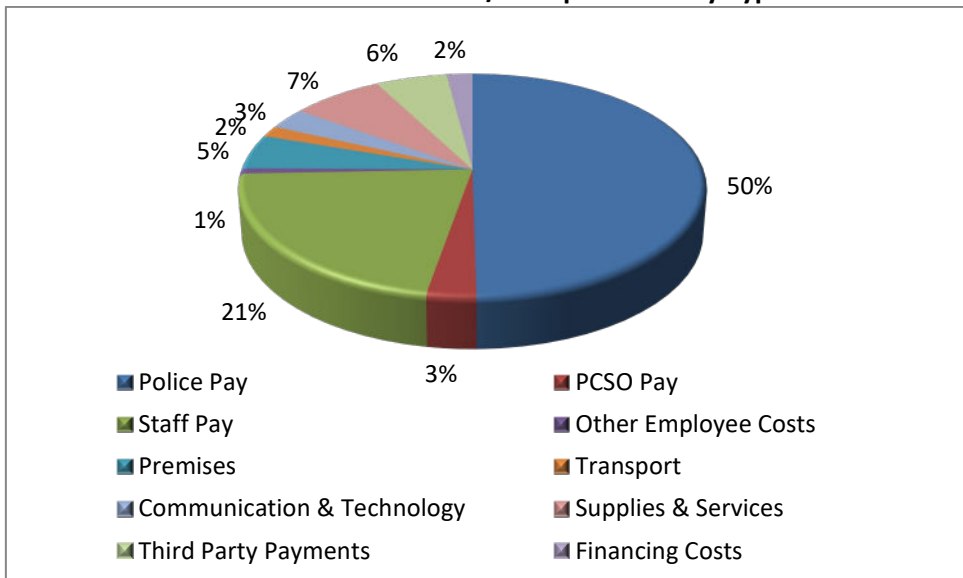
7.3. Pension Reform for existing and new public sector pension schemes was first proposed in the 2011 Hutton Review and enacted through the 2013 Public Sector Pension Act, with resulting 2015 Police Pension Scheme Regulations. Protection was provided for all those within ten years of their normal pension age as at April 2012. This protection led to class action challenge in a number of schemes including Police with over 12,000 Police claimants. Chief Constables were named as respondents alongside the Home Secretary and defended the claims that the transitional arrangements were discriminatory. This was eventually determined in the McCloud case heard in the Supreme Court. The McCloud judgement has resulted in a change (or remedy) to the specific transitional protection arrangements to the new pension schemes, but not to the new pension scheme arrangements themselves.

7.4. As a consequence of this judgement, the associated costs will be integrated into the 2020 Police Pension Valuation process impacting on police budgets in 2023/24. At this time the actual cost per force is unknown nor how it will be funded, but it is anticipated that will be covered within the 2020 spending review. The judgement will also impact on the Local Government Pension Scheme (LGPS). Both are being closely monitored and the MTFS will be updated when further data becomes available.

## 8. CONTEXT

8.1. As part of the ongoing review of expenditure and the search for further efficiencies and savings, it is important to understand how the Commissioner and Constabulary currently spend their funding. The following chart shows that 75% is spent on pay and other employee costs with the remaining funding spread over premises, transport etc.

**Chart 2: Cheshire Police and PCC 2020/21 Expenditure by Type**



## 9. INDICATIVE CAPITAL PROGRAMME

9.1. In addition to the revenue budget, there is a proposed capital investment programme to both maintain essential buildings, equipment, IT and vehicles together with new investment in priority areas including preparation for Policing 2025. The funding of this programme comes from a number of sources including government grant, revenue funding set aside for this purpose, use of reserves and other contributions. However, if this is not sufficient to fund the programme any shortfall can be met

by borrowing – although there is an annual cost to this in terms of interest and MRP (setting aside funds to repay the loan).

- 9.2. As with the revenue budget, assumptions are required over the level of funding available for capital investment. Over the last decade the level of government grant allocated to Cheshire has fallen to £0.17m in 2020/21 and the Capital Strategy assumes this amount will be received each year thereafter. Equally, with borrowing being required over the MTFS period, assumptions are made on both the interest rates applicable at the time of the loan and the length of the loan. Both have direct impact on the revenue budget and have been included in the revenue projections earlier in this Strategy.
- 9.3. In line with the Capital Strategy, supported by specific strategies such as Estates and IT, the following table shows the proposed capital investment programme together with the associated funding. Final approval for each year’s capital programme remains with the Commissioner as part of his budget setting process each January.

<b>Table 2 Capital Strategy</b>	<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>	<b>2023/24 Estimate £000</b>	<b>2024/25 Estimate £000</b>	<b>2025/26 Estimate £000</b>
<b>Expenditure:</b>					
Annual Replacement Schemes:					
Fleet Vehicles	2,677	1,810	1,970	2,180	2,200
IT and Communications	540	540	540	540	540
New Schemes:					
Estates* <sup>1</sup>	2,060	600	600	600	600
IT and Communications* <sup>2</sup>	3,215	7,650	0	0	0
Operational Equipment	543	253	214	614	200
Collaboration/Funded Vehicles	362	0	0	0	0
<b>Capital Expenditure</b>	<b>9,397</b>	<b>10,853</b>	<b>3,324</b>	<b>3,934</b>	<b>3,540</b>
<b>Financed by:</b>					
General/Specific capital grants	267	0	0	0	0
Capital Receipts	275	0	0	0	0
Revenue Contributions to Capital	2,696	2,650	3,000	3,000	3,000
External Contributions to Capital	307	0	0	0	0
ESN Reserve	0	3,485	0	0	0
HQ IT Reserve	221	221	221	221	221
Borrowing	5,631	4,497	103	713	319
<b>Total Funding</b>	<b>9,397</b>	<b>10,853</b>	<b>3,324</b>	<b>3,934</b>	<b>3,540</b>

\*<sup>1</sup> An updated Estates Strategy is currently being jointly developed between the Constabulary and the OPCC. It is recognised that any changes to the estates footprint may require additional capital financing and this would be the subject of a business case being approved through the appropriate governance structure. As specific business cases are approved and funding identified these will be added into this strategy.

\*<sup>2</sup> Includes estimated cost of the new Emergency Services Network (ESN) devices.

**MANAGEMENT BOARD**

**DECISION NO. 2021/05**

**DATE: 27 JANUARY 2021**

**2021/22 BUDGET AND COUNCIL TAX PRECEPT**

**Executive Summary:**

The Commissioner is required to set an annual budget and issue a precept (the Commissioner's element of council tax) taking into account Government grant funding, operational demands and the impact of the national officer uplift programme. Details of the 2021/22 budget are presented in appendix 1.

**Recommendation: That:**

- (1) the Police & Crime Panel be notified that it is proposed to increase the police element of council tax by 7.1% (£15 p.a. for an average Band D equivalent property for 2021/22, from £210.44 to £225.44; i.e. by 29p per week) in line with the flexibility in precept increase permitted by the Government;
- (2) the net budget requirement for the financial year commencing 1 April 2021 be set at £207.8m.
- (3) the proposed 2021/22 precepts be as follows:-

	Number of Band D equivalent houses	Precept on Collection Fund £
Cheshire East	153,796.10	34,671,793
Cheshire West and Chester	122,724.30	27,666,966
Halton	35,154.00	7,925,118
Warrington	69,027.00	15,561,447
<b>Total</b>	<b>380,701.40</b>	<b>85,825,324</b>

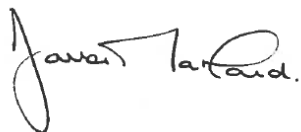
- (4) the deficit of collection funds allocated to the Commissioner of £223k included in the budget be noted;
- (5) the Legal & Unavoidable Commitments of £0.723m and Police & Crime Plan priorities and operational demands and pressures of £5.125m as set out in Tables 4a and 4b of the report, be approved;

- (6) the National Police Uplift Programme costs, together with the grant of up to £1.5m be noted, recognising this can only be used for reimbursement of actual spend;
- (7) the savings proposals for 2021/22, totalling £1.255m as set out in the budget report, be approved;
- (8) the financial health targets for monitoring purposes as set out below, be approved:-
- (i) *Reserves*  
That the level of general reserves, after allowing for potential financial risks be maintained, at no lower than 3% of the net budget and that this be monitored by the Commissioner on a quarterly basis.
  - (ii) *Revenue Spending*  
That the Chief Constable maintains revenue spending within 1% of the net budget and that this is monitored by the Commissioner on a quarterly basis.
  - (iii) *Capital Programme Management*  
That the Chief Constable maintains the projected capital outturn at a level that does not vary from the original capital programme by more than 20%. The total capital programme includes the new schemes for 2021/22 and those schemes brought forward from previous years. This target is to be monitored by the Commissioner on a quarterly basis.
  - (iv) *Debt*  
That the Chief Constable collects at least 50% of debtor income within one month of the invoice being raised.
  - (v) *Prudential Indicators*  
That the actual prudential indicators be monitored by the Commissioner on an annual basis against the indicators set in the budget.

I submit these recommendations for approval.

**Signature**

**Date 27 January 2021**



**Chief Constable**

I have reached the following decision:

Approval of the recommendations.

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My rationale for this decision is:

This decision provides a balanced budget for 2021/22. This will enable Cheshire Constabulary to meet increased costs due to inflation, to deliver policing services for the people of Cheshire in accordance with the priorities set out in the Police and Crime Plan and continue to address increasingly complex policing demands in a robust, sustainable and efficient way. The increase in the police element of Council Tax is necessary to maintain effective frontline policing in light of the ongoing underfunding of policing by the Government, and is supported by the outcome of public consultation.

**Signature**

**Date 27 January 2021**

A handwritten signature in black ink, appearing to be 'D. ...' with a flourish at the end.

**Police & Crime Commissioner**

## **PART 1 – NON-CONFIDENTIAL FACTS AND ADVICE**

### **INTRODUCTION AND BACKGROUND**

1. The purpose of this report is to enable the Commissioner to finalise the budget for 2021/22 and meet his statutory duty to set a precept.
2. Since the coronavirus outbreak and initial restrictions were put in place, policing has been at the forefront of ensuring the public follow the rules and stay safe. This has required additional patrols, the use of personal protective equipment (PPE), social distancing and all the while continuing with operational policing, using the following strategy:
  - Engage people in a friendly manner
  - Explain why we and the Government are asking them to take the action
  - Encourage people to take the appropriate action
  - Enforce only when necessary
3. Additional funding has been provided for some of the expenditure mentioned – specifically around PPE, additional cleaning, creating Covid-secure buildings and overtime. The Constabulary has also claimed for loss of income where all of the associated costs are not able to fully reduce – for example speed awareness courses.
4. The Minister of State (Minister for Crime and Policing) on the 17 December 2020 presented a Written Ministerial Statement setting out police funding for 2021/22 together with the capping rules for local council tax precept increases.
5. The Government’s provisional police funding settlement for 2021/22 stated that the overall funding for the policing system will total up to £15.8 billion. Within this, available funding to Police and Crime Commissioners will increase next year by up to an additional £703 million, assuming full take-up of precept flexibility.
6. Full details of the proposed 2021/22 budget is set out in appendix 1.
7. In addition to the budget, the Commissioner is asked to approve the Reserves Strategy and Capital Strategy as set out in appendices 5 and 6.
8. A public consultation exercise was conducted in January 2021. A total number of 2,282 responses were received with 2,271 respondents giving their views on the policing precept as part of the online survey. 68% supported a precept increase of up to £1.25 per month for an average Band D equivalent property.

### **FINANCIAL COMMENTS**

9. The financial comments are included in the appendices to this report.

## LEGAL COMMENTS

10. There are no specific legal comments associated with the report.

## EQUALITY COMMENTS

11. There are no specific equality comments associated with the report.

### Public access to information

*Information in this form is subject to the Freedom of Information Act 2000 and other legislation. Part 1 of this form will be made available on the PCC website within 3 working days of approval. Any facts/advice/recommendations that should not be made available on request should not be included in Part 1 but instead on the separate Part 2 form.*

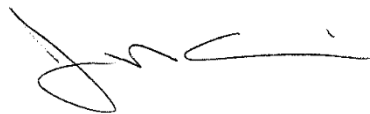
Is there a Part 2 form - No

Contact Officer: Wendy Bebbington, Head of Finance

Tel. No.: 01606 362035      Email: [wendy.bebbington@cheshire.pnn.police.uk](mailto:wendy.bebbington@cheshire.pnn.police.uk)

### CHIEF OFFICER DECLARATION (Assistant Chief Officer - Julie Gill):

*I have reviewed the proposal and I am satisfied it is correct, all relevant internal checks have been undertaken and it is an appropriate request to be submitted to the Police & Crime Commissioner.*



Signature

Date 27 January 2021

### CHIEF FINANCE OFFICER DECLARATION (Clare Hodgson):

*I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the presentation of this report. I am satisfied that this is an appropriate request to be submitted to the Police & Crime Commissioner.*



Signature

Date 27 January 2021

## REVENUE BUDGET AND COUNCIL TAX 2021/22

### PURPOSE OF THE REPORT

1. The purpose of this report is to enable the Commissioner to finalise the budget for 2021/22 and meet his statutory duty to set a precept. An overview of the statutory requirements regarding the budget and precept setting including the timing of decision making and interaction with the Police and Crime Panel is attached in Appendix 2.

### INTRODUCTION

2. The Commissioner is required to set an annual budget and precept taking into account Government funding, precept regulations and organisational demands. This requirement is supported by the production of a Medium Term Financial Strategy (MTFS) with the annual budget forming the first year of the Strategy. The creation and maintenance of the MTFS is fundamental in promoting good financial planning and delivery of value for money.
3. The MTFS covers the period 2021 to 2026 although it is acknowledged that with the Police Settlement yet again only providing one year of funding details, any funding from 2022 is speculative and subject to change. In addition to the MTFS there are a number of other financial strategies relating to reserves, capital and treasury management that both inform and support the budget process. The current MTFS is available on the Commissioner's website via the following link – [www.cheshire-pcc.gov.uk](http://www.cheshire-pcc.gov.uk).

### COVID-19 PANDEMIC

4. Before proceeding to the budget setting report in detail, it is imperative to set out the impact the pandemic has had on both expenditure and funding during 2020/21 and into 2021/22 and beyond.
5. Since the outbreak and initial restrictions were put in place, policing has been at the forefront of ensuring the public follow the rules and stay safe. This has required additional patrols, the use of personal protective equipment (PPE), social distancing and all the while continuing with operational policing, using the following strategy:
  - Engage people in a friendly manner
  - Explain why we and the Government are asking them to take the action
  - Encourage people to take the appropriate action
  - Enforce only when necessary
6. Additional funding has been provided for some of the expenditure mentioned – specifically around PPE, additional cleaning, creating Covid-secure buildings and overtime. The Constabulary has also claimed for loss of income where all of the associated costs are not able to fully reduce – for example speed awareness courses.

7. Aside from Government funding, the other major source of funding is the police share of council tax. This is calculated based on each local authorities' tax base. A tax base is the number of 'Band D equivalent' dwellings in a local authority area. To calculate the tax base for an area, the number of dwellings in each council tax band is adjusted to take account of any discounts, premiums or exemptions and collection rates. In the past the tax bases in Cheshire have grown each year providing additional funding. Due to the pandemic, the previously anticipated growth has not materialised and in the some cases has actually decreased, resulting in a loss of £0.9m funding compared to previous estimates.
8. Each of the four local authorities holds a council tax collection fund which is a separate fund that records the income and expenditure relating to council tax. Any surplus or deficit on the fund is either due to or paid for by the individual authorities, the Police & Crime Commissioner and Cheshire Fire Authority. As a result of pressures associated with the pandemic, it has been accepted that authorities are likely to estimate a larger-than-normal deficit on the 2020/21 Collection Fund in January 2021, creating a resource and budget pressure for 2021/22. The Government has therefore amended secondary legislation to allow authorities to spread the estimated deficit on the 2020/21 Collection Fund over the three years 2021/22 to 2023/24. The provisions do not allow deficits in other financial years to be phased. The Local Authorities (Collection Fund: Surplus and Deficit) (Coronavirus) (England) Regulations 2020 came into force on 1 December 2020.

## FINANCIAL BACKGROUND

9. The Minister of State (Minister for Crime and Policing) on the 17 December 2020 presented a Written Ministerial Statement setting out police funding for 2021/22 together with the capping rules for local council tax precept increases.
10. The Government's provisional police funding settlement for 2021/22 stated that the overall funding for the policing system will total up to £15.8 billion. Within this, available funding to Police and Crime Commissioners will increase next year by up to an additional £703 million, assuming full take-up of precept flexibility.
11. The additional funding includes an increase of £415 million to Government grants for the recruitment of a further 6,000 additional officers by the end of March 2022, the second year of the Police Uplift Programme (PUP). To ensure that progress in recruitment is maintained, and to track the use of this investment efficiently, the Government will continue to ring-fence £100 million of the additional funding.
12. As part of this settlement the Government has also set out its expectations of policing with the following:
  - 6,000 further officers – on top of the first tranche of 6,000 to be recruited in 2020/21 – recruited by the end of March 2021
  - £120m of efficiency savings from across the law enforcement sector – which are reflected in the funding set out as part of the settlement – delivered in 2021/22

- Policing needs to ensure that high quality data is collected and utilised effectively to support local delivery, identify efficiencies and support the National Policing Board’s drive to deliver the best possible policing outcomes for the public
- 13. As set out as part of the Provisional Settlement, Commissioners will also be able to raise further funding through precept flexibility, subject to confirmation at the final Local Government Finance Settlement. Commissioners will be empowered to increase their Band D precept by up to £15 in 2021/22, without the need to call a local referendum. If all Commissioners decide to maximise their flexibility, this would result in up to an additional £288 million of funding for local policing next year. It is for locally accountable Commissioners to take decisions on local precept.
- 14. Based on the above provisional settlement, pension grant, PUP grant and with a maximum increase of £15 per year for Band D, this potentially provides Cheshire with funding of £219.8m in 2021/22 – an estimated £11.99m increase of which £5.8m (nearly half) will come from local taxpayers. However, this is based on the assumption that the Commissioner will increase the council tax precept by a maximum permitted.
- 15. Capital funding has been maintained at the same level as 2020/21 – for Cheshire £0.2m. This small amount of Government funding does not cover the annual replacement cycle of equipment and technology let alone the additional investments required to ensure the Constabulary remains ‘fit for the future’. As such, the Commissioner’s Capital Strategy requires the use of reserves and an increase in borrowing as set out in the Treasury Management Strategy.

#### POLICE & CRIME PLAN 2016-21 & ORGANISATIONAL DEMANDS

- 16. In setting the Police and Crime Plan 2016-2021 ([www.cheshire-pcc.gov.uk/what-im-doing/police-and-crime-plan](http://www.cheshire-pcc.gov.uk/what-im-doing/police-and-crime-plan)), the Commissioner listened carefully to what the public told him was important for the police service as well as speaking to partners and listening to the Chief Constable on the emerging policing threats for our county.
- 17. The Plan sets out a vision for the years 2016-2021 in which Cheshire will have a Constabulary focused on community policing and putting victims first. The legacy will be a police service fit for the future which is connected with, based within and accessible to local communities – real community policing.
- 18. In addition to the Commissioner’s Police and Crime Plan there are two further key documents that set out organisational demand. Firstly, is the Force Management Statement which is a self-assessment that Chief Constables prepare and give to Her Majesty’s Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) each year. It is the Chief Constable’s statement and explanation of:
  - the demand the force expects to face in the next four years;
  - how the Constabulary will change and improve its workforce and other assets to cope with that demand;

- how the Constabulary will improve its efficiency to make sure the gap between future demand and future capability is as small as it can reasonably be; and
  - the money the Constabulary expects to have to do all this.
19. As such the Force Management Statement and the proposed budget are integral to each other. One to provide details on the demand and shape of the Constabulary going forward and the other to reflect the monetary impact.
20. Secondly, is the Strategic Policing Requirement (SPR) - this was first issued in July 2012, in accordance with Section 77 of the Police Reform and Social Responsibility Act 2011. This requirement supports Commissioners and Chief Constables to ensure their forces' national responsibilities as follows:
- helps Police and Crime Commissioners, in consultation with their Chief Constable, to plan effectively for policing challenges that go beyond their force boundaries;
  - guides Chief Constables in the exercise of these functions; and
  - enables and empowers Police and Crime Commissioners to hold their Chief Constable to account for the delivery of these functions.

#### 2021/22 BUDGET PROPOSALS

21. Preparation for the 2021/22 budget commenced in 2020 utilising a planning process that had at its centre the four key priorities within the Commissioner's Police & Crime Plan, the Force Management Statement and the Strategic Policing Requirement. Recognising both demand and risks, the Constabulary set out the key principles for that planning process:
- Ensure that plans contribute to improved outcomes in support of set priorities with Community Policing and a 'We Care' philosophy at the heart of service delivery;
  - Set a comprehensive, timely, balanced and realistic budget;
  - Takes into account pay and price inflation and achievability of savings;
  - Complies with the approved treasury management strategy;
  - Complies with the approved reserves strategy;
  - Raises awareness of and communicate key financial messages both internally and externally;
  - Ensure budgets set are affordable and do not jeopardise financial stability either in the short or long term;
  - All spending plans will need to demonstrate that they can achieve value for money;
  - Spending will be agreed only when the necessary funding is identified and approved;
  - External funding will be sought wherever it can be used in a sustainable manner that does not lead to unforeseen costs; and
  - Budget proposals will be publicised and consulted upon with stakeholders in an open and transparent manner.

22. The outcome of this planning process includes the following key priorities included within the 2021/22 budget proposals. The priorities within this budget proposal will be used by the Commissioner to support, challenge and hold the Chief Constable to account for their delivery throughout 2021/22.

## POLICE & CRIME PLAN PRIORITIES AND OPERATIONAL DEMANDS

### Connected with our Communities

23. The Commissioner has stated that his focus will always be to prevent crime and anti-social behaviour, support victims and protect vulnerable people. Community policing is an integral part of protecting our communities and the Commissioner's ambition is to make Cheshire the best in the country at community policing. This can only be achieved by investing in our communities and our workforce to ensure policing teams and local residents are given the support and tools they need to make our communities safer.
24. With this focus, the intention is to both protect and enhance community policing by developing it in terms of problem-solving, crime prevention, community engagement and diversion of young people from criminality in order to address anti-social behaviour. One key element will be to increase the current PCSO establishment by up to 10 to a total of 200 Commissioner funded PCSOs.
25. In order to deliver even safer communities for the whole of Cheshire, the Commissioner is committed to improving road safety and reducing the number of people killed or seriously injured on our roads. This priority is reinforced in the July 2020 HMICFRS national report 'Roads Policing: Not optional – An inspection of roads policing in England and Wales' which concluded 'that the financial cost of road traffic collisions is estimated to be £36 billion per year ... and ... there is a pressing need ... to recognise the importance of roads policing in reducing death on the roads.' As part of this commitment, the Commissioner, with the Constabulary and partners, is developing plans to tackle speed related deaths and serious injuries by deploying further average speed schemes within Cheshire.
26. When a victim contacts the police, it is important that their call is answered in a timely manner, the appropriate information is recorded accurately on to the correct systems and the victim is dealt with in a professional manner. The information needs to be appropriately assessed, taking into consideration threat, harm, risk and vulnerability; and where possible the victim should get appropriate safeguarding advice. To ensure this is embedded into the Force Control Centre and in conjunction with the organisational drive for quality at initial point of contact, it is proposed to provide a capability and coaching team to support call management and crime data integrity at first point of contact.
27. This year because of Covid, above and beyond any other year the dedication and time given freely by the Special Constabulary is making a fundamental difference to the safety and security of the people of Cheshire. Up to now, these officers were not able to be a part of the Police Federation and therefore were not afforded the same level of support as other officers – this is to change with new legislation being prepared. The Commissioner is committed to cover these costs as a small recognition of the voluntary work the Special Constabulary provides.

## Support for victims and protecting vulnerable people

28. The Integrated Anti-Stalking Unit (IASU) is a collaborative, risk management service, delivered by the Constabulary and North West Boroughs Healthcare NHS Foundation Trust, working in partnership to develop innovative responses to stalking. As part of the 2020/21 budget further funding was provided for 12 months to allow a sustainable alternative to be developed. This proposed 2021/22 budget expands on last year's temporary funding in a sustainable manner with the introduction of two Independent Advocacy Caseworkers within the Stalking and Domestic Abuse Multi-Agency Team.
29. As stated earlier, when someone is a victim of a crime, it is vital that the information provided needs to be appropriately assessed, taking into consideration threat, harm, risk and vulnerability. Investment is proposed in additional criminal analysts who bring multiple data sets together to provide the, often critical, evidence to take the case to the Crown Prosecution Service for charge and ultimately prosecution.
30. The duty of the police is to keep the peace, prevent crime and disorder and bring offenders to justice. If the service provided to the victim of crime is not handled properly and in accordance with the established rules, the police cannot perform these duties well. A failure of a police force to correctly deal with the victim at any point, from the initial call to the conclusion of a case, will not only let down a victim, but an offender may be missed as well as a possible opportunity to prevent further crime. It will also reduce public confidence in the police. Demand on these areas has increased considerably and investment is proposed in the Criminal Justice processes with additional training on file management; IT enhancements; and additional legal support.
31. To get to the point where Criminal Justice processes begin, crime must be thoroughly investigated. As reported previously the Constabulary has seen a considerable increase in demand with major crime being over and above previous levels. In addition, there are some major investigations that are complex and protracted incurring additional costs. To ensure all of these investigations are carried out in a timely manner and providing the victims with the support and outcomes they deserve, a number of civilian investigators have been brought in on a temporary basis. This budget will ensure continuity for at least another 12 months as some of the key long term investigations continue.
32. Investigations require detailed evidence and Forensics forms a key part of that process. Over the past few years provision of these services has been challenging and following the UK Forensic Science Regulator's (FSR) note of concern regarding the threat to Forensic Science in the UK, in December 2018 the North West Region commenced an initial marketplace assessment and following on further commissioned a business case looking at which services could be brought in-house. This budget allocates both initial set-up funding and on-going support to this vital area, subject to the approval of the final agreement by the regional Commissioners.

33. The Custody Investigation Team work to promote outcomes that take into account the victim and community's wishes and prevent reoffending. The scope of the Custody Investigation Officer role has evolved since the team were originally established. The officers now acts as the 'officer in the case' for a wider variety of criminal investigations than was anticipated and recognition of this has been included within this proposed budget.

#### Prevent Crime and Anti-Social Behaviour

34. Whilst support for victims and protecting vulnerable people is a key duty, prevention of crime in the first place is the ideal solution. As part of this process, it is important that forces have high-quality crime data. This allows them to establish where, when, and how often crime is happening. The Commissioner is responsible for holding the Chief Constable to account for maintaining an efficient and effective police service in Cheshire. This is only possible with appropriate data and analysis of both crime and responses. This budget intends to increase the resources to this critical area together with a restructure associated with implementation of digital intelligence and analysis strategy and to improve transparency. This will enable existing operational intelligence tools which supports deployment, managing vulnerability and problem solving, to be maintained and additional development to take place to further support key operational areas such as intelligence.
35. The Force Intelligence Bureau's vision is 'A Cheshire that is secure, and feels safer, through a coordinated approach to and management of intelligence, in line with the needs of our communities and our force priorities' and a mission 'by 2020 we will deliver a professional intelligence community empowered to drive effective operational outcomes by producing and sharing accurate, timely and accessible intelligence.' To support and enable this important part of crime prevention and detection, additional resources are to be provided.

#### Fit for the future

36. In order to ensure that the Constabulary maximises personal safety of their officers and staff and in order to ensure the organisation works effectively and efficiently the Constabulary is committed to ensure training and development is available and provided for all. For 2021/22 the following are highlighted as additional training priorities:
- Supervision standards - work based assessment standards ensuring that newly qualified officers receive the necessary support during their first year to achieve the competence required as supervisors
  - Crime Recording Training - for frontline officers, staff and supervisors to ensure public confidence. Training and development for frontline officers to ensure skills and standards are in place
  - New police recruit training – police recruitment levels require more trainers in initial training, crime training, driver training and personal safety training all fundamental elements for officer to be equipped to serve the public
  - Cultural change programme which will include diversity, equality and inclusion awareness, mutual respect for all and the 'We Care' strategy

37. In addition to training, it is also vital that standards are maintained both in operational terms and in specialist areas. As such, investment is to be made into the Professional Standards department in recognition of the recommendation of HMICFRS. Equally, ISO accreditation has now expanded to cover digital, cell sight, SARCs, CSI Major Crime and funding will be provided to cover this new legislation.
38. As part of the 'We Care' strategy and the Commissioner's commitment to the health and wellbeing, it is proposed to introduce a minimum salary for all employees equal to Spine Point 10 of the Police Staff Council national pay spine.
39. Within the 2020/21 budget, funding of £2m was provided to support Infrastructure especially those items needed for the additional uplift officers such as technology, access to information and operational equipment. For 2021/22 this funding will provide the public of Cheshire and our officers and staff with the necessary technology and capability that will ensure they are fit for the future; able to access information within the communities remotely; provide real time data; support victims where they are needed; ensure that improved vetting and recruitment procedures can be implemented; and intelligence and cyber-crime can continue to be managed and improved.

#### PROPOSED REVENUE BUDGET 2021/22

40. Table 1 shows the proposed revenue budget for 2021/22. The impact of the threats and demands placed upon policing; commitments required; proposed savings and the total funding available to the Commissioner have been reflected within the proposals and are detailed in the following sections. The budget proposals have been developed as the product of a detailed prioritised based budgeting (PBB) process which examines all areas of the budget and matches resources according to risk. These proposals are considered vital by the Chief Constable in order to deliver a viable, sustainable police service to the public of Cheshire.

<b>Table 1: Proposed Revenue Budget 2021/22</b>	£000
<b>2020/21 Gross Expenditure Budget</b>	<b>229,432</b>
Pay and Price Inflation	975
Police Uplift Programme	5,720
Legal & Unavoidable Commitments	723
Operational Demands and Pressures	5,125
Savings	-1,255
Transfer to/(from) Reserves	1,465
<b>2021/22 Gross Expenditure Budget</b>	<b>242,185</b>
Other income and specific grants	-34,368
<b>2021/23 Net Budget Requirement</b>	<b>207,817</b>
Financed by:	
Government Police Grant & Formula Funding	-122,215
Council Tax Precept (based on £15 Band D increase)	-85,825
Deficit on Collection Funds	223
<b>2021/22 Net Budget Requirement</b>	<b>-207,817</b>

## RISKS

41. For 2021/22 there is a reasonable degree of certainty as the Provisional Grant Settlement has been received. However, there remain some outstanding issues affecting next year such as the counter terrorism grant. Any changes to the funding will be reported to the Commissioner as soon as they are known together with the associated proposed changes to the budget.
42. As with any assumptions there are risks that the actual outcome will be different. There are key assumptions included within this proposed budget that could impact significantly such as pay awards where a 0.5% movement in the pay award would have a potential £0.9m impact on the budget. Reserves are held to provide flexibility in-year for such incidences and the Reserve Strategy included within this report covers this in more detail.

## INFLATION

43. Inflation in both pay and price terms is applied to budgets where appropriate. Pay awards are negotiated nationally and in the spending review the Government announced a 'pause' in pay awards for 2021/22 for all public sector employees with the exception of some of the NHS and those earning under £24k which will receive a £250 uplift.
44. For non-pay items, the inflation applied is based on the Office of National Statistics Inflation Report using the most applicable inflation factor. The following table shows the inflation applied.

Table 2: Inflation	2021/22 £000
Pay inflation (0% - under £24k £250 uplift)	0
Price (non-pay) inflation	975
<b>Total Inflation</b>	<b>975</b>

## LEGAL & UNAVOIDABLE COMMITMENTS

45. Legal and unavoidable commitments come from two sources, the impact of decisions taken in previous years that have a financial impact in 2021/22 and the financial impact of external decisions and changes such as the introduction of a new financial burden or change in legislation. The following table shows those items included in the 2021/22 budget proposal.

Table 4a: Legal & Unavoidable Commitments	2021/22 £000
Full year effect of 2020/21 changes	57
Collaborations contributions uplift (incl. inflation)	283
Audit & Actuarial Fees	22
HMRC tax liability requirement	5
National Policing Contributions	197
McCloud Pension Impact resource	159
<b>Total</b>	<b>723</b>

46. Under Sections 22B and 22C of the Police Reform and Social Responsibility Act 2011, Chief Officers and Commissioners have a duty to keep collaboration opportunities under review and to collaborate where it is in the interests of the efficiency or effectiveness of their own and other police force areas. This is in recognition that there are certain services required, which are not affordable by individual forces alone – e.g. firearms provision. The above costs reflect the additional uplift requirements to the collaborations Cheshire is involved in, subject to partner forces full agreement.

#### POLICE & CRIME PLAN PRIORITIES AND OPERATIONAL DEMANDS

47. Community policing remains at the heart of the service and this budget proposal protects and enhances the 122 Community Officer and PCSO provision by developing it in terms of problem-solving, crime prevention, community engagement and diversion of young people from criminality in order to address anti-social behaviour. The budget requirements are related to maintaining key operational services to the public in the light of increasing operational demands, additional standards or compliance requirements or essential information or technology to support operational activity. Having reviewed the budget position the Constabulary cannot meet these additional operational demands and pressures without significantly impacting upon service delivery to the public in other areas.
48. The following tables show the budget required as a result of additional operational demands and pressures. The requirements are shown under the Police and Crime Plan priorities together with the use of technology and the impact of prior year decisions – including the reversal of the temporary 2020/21 PUP funding, Occupational Health increase and the impact of capital programme funding.

Table 4b: Police & Crime Plan Priorities/Operational Demands		2021/22 £000
Service Connected with Communities		2,317
Support for victims and protecting vulnerable people		2,258
Prevent Crime and Anti-Social Behaviour		694
Fit for the Future		616
Impact of Prior Year Decisions		-760
	<b>Total</b>	<b>5,125</b>

49. It should be noted that the costs associated with the Office of the Police and Crime Commissioner (OPCC) will remain at the same level as 2020/21. Based on the HMICFRS Value for Money profiles (2019/20), Cheshire’s OPCC is in the lowest 5 of all forces in terms of costs.

#### SAVINGS

50. While additional funding has been provided, there is still a need to ensure value for money is achieved and funding is prioritised in line with the Police and Crime Plan. As part of the 2021/22 budget process a focused review of non– pay expenditure was commissioned in order to ensure that all non-pay efficiency opportunities have been maximised without

impacting on service delivery. The output of this review, together with other savings and income are shown below.

Table 5 – Savings	2021/22 £000
Energy efficiencies	-175
Review of contracts	-214
Removal of 2020/21 temporary/one-off funding	-310
Stock and consumables efficiencies	-130
End of contract/temporary staffing	-341
Record management efficiencies	-17
Other non-pay items	-68
<b>Total</b>	<b>-1,255</b>

## COUNCIL TAX PRECEPT

51. A precept is levied on the Council Tax for policing in Cheshire. It is the responsibility of the Commissioner to set the level of precept as part of the budget setting process. While the decision is the Commissioner's, the Government has placed a capping limit for a number of years on the level on year on year increase that can be applied. However, the government's announcement of total funding available for policing relies upon Commissioner's raising the precept by the maximum amount for the next financial year.
52. To calculate the level of Council Tax funding, each local authority calculates the taxbase (the assimilated number of council tax bills issued) taking into account changes in the number of houses, housing benefits etc. Compared to 2020/21, the overall taxbase has increased by 567 compared to last year when the increase was 6017. The following table shows the proposed level of precepts for each local authority and the individual amount levied per each Council Tax band.

Table 6: Proposed Precepts 2021/22	Number of Band D Equivalents	Precept on Collection Fund £
Cheshire East	153,796.10	34,671,793
Cheshire West & Chester	122,724.30	27,666,966
Halton	35,154.00	7,925,118
Warrington	69,027.00	15,561,447
<b>TOTAL</b>	<b>380,701.40</b>	<b>85,825,324</b>

Band	Proposed 2021/22 £	Actual 2020/21 £	Change per year £	Change per week £p
A	150.29	140.29	10.00	0.19
B	175.34	163.68	11.66	0.22
C	200.39	187.06	13.33	0.26
D	225.44	210.44	15.00	0.29
E	275.54	257.20	18.34	0.35

F	325.64	303.97	21.67	0.42
G	375.73	350.73	25.00	0.48
H	450.88	420.88	30.00	0.58

53. In addition to the above precept, each of the four local authorities holds a council tax collection fund which is a separate fund that records the income and expenditure relating to Council Tax. Any surplus or deficit on the fund is either due to or paid for by the individual authorities, the Police & Crime Commissioner and Cheshire Fire Authority. The amount declared deficit and payable by the Commissioner in 2021/22 amounts to £223k. Additional funding in terms of a one-off Local Council Tax Support Grant (£1.34m) has been provided to cover this and the next two year's deficit payments, in line with the regulations set out in paragraph 8.

## COMMISSIONING

54. In 2021/22, the approach to commissioning will focus on victims of crime with the aim of ensuring that appropriate services are in place for those unfortunate enough to become victims of crime, in order to help them to cope with their ordeal and recover as best they can. In order to better understand the needs of victims the PCC has recently undertaken a refresh of the Cheshire Victims Needs Assessment. The initial supporting service for victims across Cheshire is Cheshire CARES, to which all reports of crime to the Constabulary are referred. However this service can be accessed by victims of crime whether or not they make a formal complaint to the police. Cheshire CARES supports victims from the outset and throughout their journey to cope and recover.
55. The Commissioner has additional responsibilities to have specialist services available, e.g. to support victims of rape and sexual abuse, child sexual abuse and domestic abuse as well as to provide a restorative justice service. The costs of Cheshire CARES and other commissioned services are funded through an allocation provided from the Ministry of Justice. The funding allocation for the 2021/22 Victims Grant is approximately £1.2m. The Commissioner will continue to work with partners across all sectors to identify and address gaps and/or emerging areas for victims' services and to drive the effectiveness of the service commissioned through the victim's grant fund in 2021/2022. Furthermore where possible co-commissioning opportunities with partners will be considered to allow for the expansion of some victim services. During 2020/21 a further £340,000 was obtained by the PCC to enhance support via charities to victims of domestic abuse and sexual abuse throughout COVID. Opportunities to access further funding support will continue. The forthcoming year's commissioning will build upon existing services and aim to maximise opportunities, both singularly and in partnership, to provide great value for money and better outcomes for our communities.
56. Since 2012/13, the specific community safety funding ceased and was incorporated into the main grant for policing. For 2021/22, despite the significant financial challenges faced by policing, the Commissioner has protected the level of community safety funding at £1.1m. In Cheshire, the funding will continue to be focused on driving community safety and crime prevention initiatives to meet the priorities of the Police & Crime Plan 2016-21. This funding has been complemented during 2020/21 through successful bids to deliver £550,000 situational crime prevention measures in Bewsey/Whitecross and some

additional £230,000 to deliver a pan Cheshire whole family perpetrator programme which will continue into 2021. During 2021/2022 the PCC will seek to develop a Domestic Abuse Workplace Scheme across Cheshire to assist in the identification and support of victims of abuse.

57. Partnership working will continue to be crucial in achieving shared objectives for Cheshire residents. This will include continued close working with partners across the criminal justice and community safety arena, the local voluntary and community sector as well as the county's Youth Justice Service. The Commissioner will seek to allocate funding to deliver even better and more measurable outcomes from residents of Cheshire.
58. During 2020/2021 the Commissioner utilised funds that become available under the Proceeds of Crime Act to create a new and innovative fund. As a consequence almost £500,000 has been invested in Community Safety across Cheshire in various funds designed to maximise resilience in our communities. Almost £400,000 of this was utilised in 2020/21 to support local policing, working directly with local communities to address the issues causing most concern. This agile approach to meeting community need utilising funds seized from criminals will continue in 2021/2022. These monies will be used to support bids to the Safer Communities Fund designed to support local and community level initiatives across Cheshire. Focus will continue to be placed on ensuring that funding is targeted at community-focused and, where possible, sustainable projects. Funding awards of up to £1,000 for express grants and up to £5,000 for Safer Communities grants will be available through an application process for projects that demonstrate benefits to the local community.

#### CAPITAL PROGRAMME

59. In addition to the revenue budgets, a programme of capital investment is proposed for 2021/22. This programme links to the 'invest to save' programmes such as new technology and the annual replacement cycle for assets such as vehicles.
60. Funding for these comes from Government general and specific grants, reserves held by the Commissioner, contributions and borrowing. Given that borrowing will need to increase to support this level of investment, it is vital that capital expenditure is prioritised to generate savings for future years, to help protect local policing services. Details of the proposed programmes and their associated funding are shown below.

Table 7: Capital Programme	£000
Annual Replacement Schemes:	
Fleet Vehicles	2,677
IT and Communications	540
New Schemes:	
Estates* <sup>1</sup>	2,060
IT and Communications* <sup>2</sup>	3,215
Operational Equipment	543
Collaboration/Funded Vehicles	362
<b>Capital Expenditure</b>	<b>9,397</b>

\*<sup>1</sup> An updated Estates Strategy is currently being jointly developed between the Constabulary and the OPCC. It is recognised that any changes to the estates footprint may require additional capital financing and this would be the subject of a business case being approved through the appropriate governance structure. As specific business cases are approved and funding identified these will be added into this strategy.

\*<sup>2</sup> Includes estimated cost of the new Emergency Services Network (ESN) devices.

61. Full details of the individual schemes within the capital programme are provided in Appendix 4 of this report and in the Commissioner’s Capital Strategy attached at Appendix 6. The proposed funding for the above capital investment is set out in the following table.

Table 8: Capital Financing	£000
General/Specific capital grants	267
Capital Receipts	275
Revenue Contributions to Capital	2,696
External Contributions to Capital	307
ESN Reserve	0
HQ IT Reserve	221
Borrowing	5,631
<b>Total Funding</b>	<b>9,397</b>

#### ROBUSTNESS OF ESTIMATES

62. Section 25 of the Local Government Act 2003 places a requirement on Chief Finance Officers to report on the robustness of the estimates used in the preparation of this proposed budget. Details of how this requirement is met are in Appendix 3.

#### RESERVES

63. Section 25 of the Local Government Act 2003 also places a requirement on Chief Finance Officers to formally report on the adequacy of the reserves. The Chief Finance Officers assess this in the context of the strategic, operational and financial risks and opportunities facing the Commissioner and the Constabulary.
64. While holding reserves is a recognised and recommended financial management tool, the levels of such reserves must remain prudent, appropriate to the level of risk and opportunity and not excessive. This is set out within the Commissioner’s Reserve Strategy attached at Appendix 5.

#### CONSULTATION WITH THE PUBLIC AND BUSINESS RATEPAYERS

65. A consultation exercise was undertaken between 5 January and 24 January 2021 to understand the public’s policing priorities for 2021/22 using an online survey and public engagement sessions. Local residents were encouraged to complete the survey via social media such as Twitter, Facebook and Cheshire Police Alert. PCSOs and OPCC consultation volunteers were also given paper copies of the survey to distribute in their local communities to those residents who are seldom online.
66. A number of virtual public engagement sessions were also held by the PCC and Chief Constable to answer local residents’ questions. They took place on:

Tuesday 12 January 2021  
Saturday 16 January 2021  
Tuesday 19 January 2021

67. The key messages provided at the public engagement sessions and via the survey were that the Commissioner and Chief Constable wanted to understand the public's priorities for policing in Cheshire ahead of the setting the policing budget for 2021/22. They also asked the public if they would be willing to pay a precept increase of £1.25 per month over 12 months for an average Band D property.
68. The consultation ended on at midnight Sunday 24 January 2021. A total number of 2,282 responses were received with 2,271 respondents giving their views on the policing precept as part of the online survey.
69. 68% (1,549) of respondents agreed to support an increase to the precept of up to £1.25 per month over 12 months for an average Band D property.

## BUDGET AND PRECEPT SETTING TIMETABLE

### PURPOSE

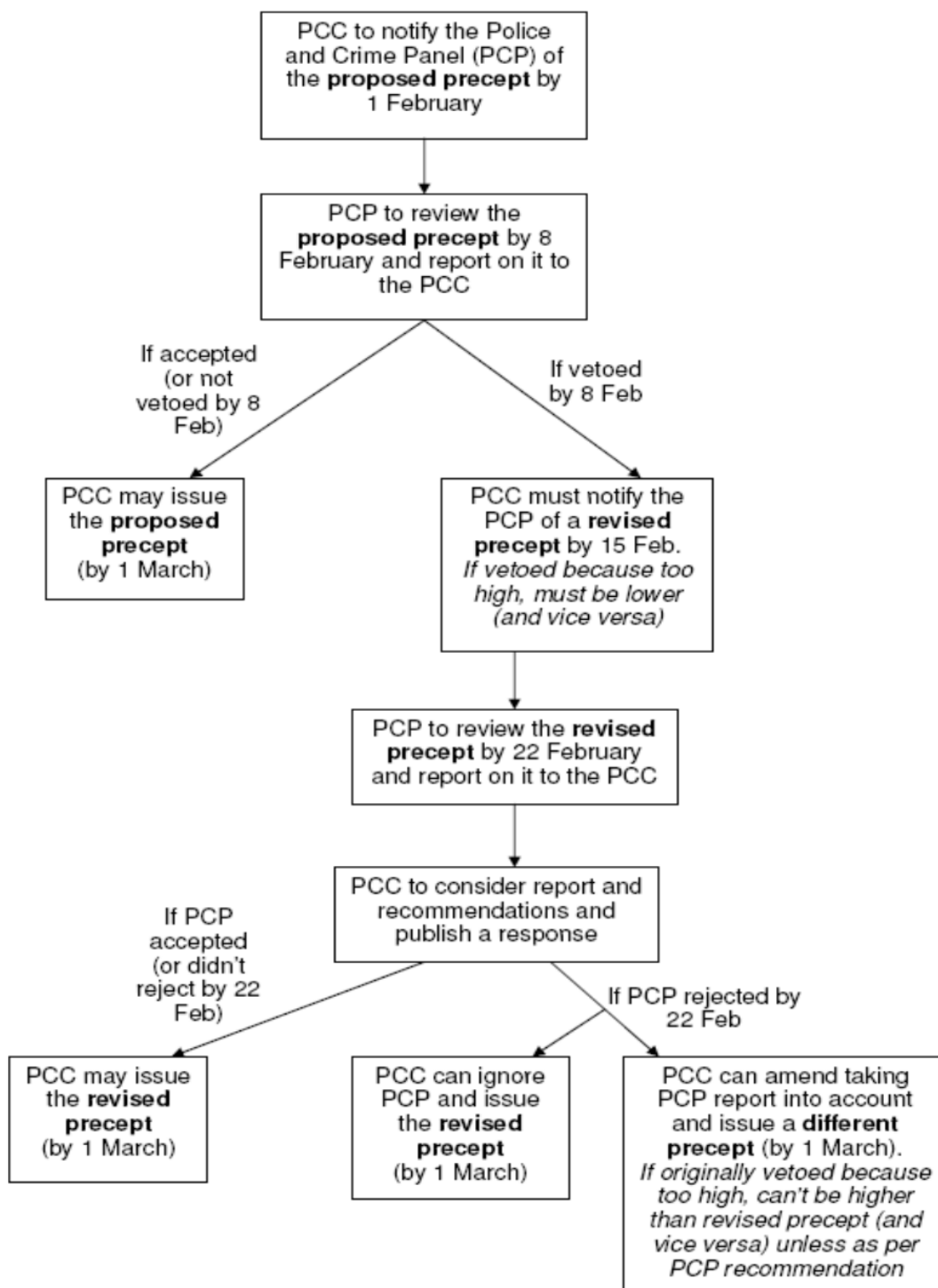
To provide the Commissioner with an overview of the statutory requirements regarding budget and precept setting and the interaction with the Police and Crime Panel. It also provides a copy of the internal timetable developed to enable the Commissioner to meet the statutory timetable.

### STATUTORY REQUIREMENTS

The statutory requirements for precepting authorities to set a budget and issue a precept for the next financial year are set out in Chapters 3, 4, and 5 of the Local Government Finance Act 1992. They include significant detail on how budget estimates and the precept must be calculated. The Police Act 1996 and the Police Reform and Social Responsibility Act 2011 amended these provisions for the change to police authorities and Police and Crime Commissioners respectively but the basic statutory requirements remain the same.

Schedule 5 of the Police Reform and Social Responsibility Act 2011 and The Police and Crime Panels (Precepts and Chief Constable Appointments) Regulations 2012 provide further detail on the process the Commissioner must follow for notifying the Police and Crime Panel of the proposed precept by 1 February of the relevant financial year (Section 3 of the 2012 Act). They also cover the interaction between the Panel and the Commissioner leading to the determination of the precept by the Commissioner by 1 March. The process is set out with the due dates diagrammatically in Annex A.

## PCC PRECEPT APPROVAL (Final Regulations)



## ROBUSTNESS OF ESTIMATES

Section 25 of the Local Government Act 2003 places a requirement on Chief Finance Officers to report on the robustness of the estimates used in preparing the budget.

The Commissioner has a policy and expenditure planning process which takes account of the service scenario and financial scenario in some detail for 2021/22. Alongside this, future capital programmes have been produced taking into account forecast Government funding, borrowing limits and council tax. For 2021/22 borrowing levels have also been guided by the prudential indicators.

For 2021/22, full consideration of these issues had led to:

- Policy and expenditure proposals that reflect the Government's Provisional Police Grant Settlement together with the on-going revenue impact of new capital projects, whilst recognising the outstanding issues and uncertainties.
- A proposed capital financing budget based on 2021/22 capital programme.

When using estimates in preparing the budget every effort is taken to ensure that they take into account the most up to date data. However, it should be noted that there are a number of areas where the actual impact could vary from the estimates used in setting the budget. The main areas are:

- Pay awards, pension increases, national reviews of pay & inflation
- Service financial performance (i.e. variances on budgets)
- Ability to achieve projected savings
- Operational demands

To provide for all potential scenarios that may arise would be prohibitively expensive and result in demands on council taxpayers considerably higher than likely need. For 2021/22 £975k has been provided for pay and price increases.

There are many factors that can affect financial performance in year including under or over-achievement of efficiency savings, income and other financial targets. The Commissioner takes a number of steps to minimise the impact by:

- Seeking wherever possible to explore in full the implications and achievability of policy and expenditure options before the budget is set.
- Promoting a robust approach to financial management requiring budget holders to monitor expenditure against budget and to take early action in reporting and responding to projected variances.
- Quarterly reporting of the projected budgetary outturn supplemented by monthly exception reports to prompt remedial action if necessary.
- Creation of appropriate and proportionate contingencies.

It should be noted that while every effort is taken to ensure the budget is balanced, there is always the possibility of variances to the budget occurring. This is one of the reasons why the Commissioner holds reserves against unanticipated cost pressures.

<b><u>CAPITAL PROGRAMME</u></b>	<b>2021/22 £000</b>
<u>Prior Year Schemes</u>	
Wide Area Network Replacement	250
Annual Vehicle Replacement Programme	1,000
Underwater Search Unit	77
Runcorn PS - Reroofing	300
ANPR Camera Refresh (Regional)	40
ANPR Management Server Refresh	35
ANPR Infrastructure Development	60
ESN - Control room software	94
Force Control System	97
Replacement of Body Armour	113
Estates (maintenance and environmental)	530
	2,596
<u>New Schemes</u>	
Estates (maintenance and environmental)	1,230
Technology Refresh - Network, Servers, Laptop, Desktop	500
Technology Refresh – E-Forensics	40
Wide Area Network Replacement	105
Cloud Archiving	12
On-Premise to Cloud Archive Renewal	50
Additional Video Enabled Court End Points (Live Link)	37
Additional Data Storage Hardware - Forensic Collision Investigation data.	70
Business Services Futures (year 1 of 2)	2,500
Digital Forensics - renewal and enhancement of mobile device examination kiosks	85
ANPR Camera Refresh (Cheshire)	45
ANPR Mobiles	38
Under Water Search Unit equipment	12
Underwater Search Unit vehicles	120
Armed Policing Alliance vehicles	242
Annual Vehicle Replacement Programme	1,677
Fleet Workshop equipment	38
<b>Total</b>	<b>9,397</b>

## RESERVE STRATEGY 2021/22

1. In addition to the requirements covering the robustness of estimates, Section 25 of the Local Government Act 2003 also requires the Chief Finance Officer (Director of Finance, OPCC) to present a report assessing the adequacy of the unallocated reserves in the context of policing threats and demands together with corporate and financial risks facing the organisation. The Commissioner needs to balance the necessity for reserves against the cost to council taxpayers and arrive at a level that is both prudent and adequate for the current climate but not excessive.
2. The Reserves Strategy sets out the reserves held, their intended usage and the strategy for ensuring the funds are maintained at an appropriate level. Reserves are held for three main purposes:
  - a. To cover unforeseen risks and expenditure that may be incurred outside of planned budgets – known as a general reserve
  - b. To set-aside funds for specific purposes; known or predicted pressures or future liabilities – known as earmarked reserves
  - c. To hold capital receipts from sale of assets. The use of which is restricted under legislation to the purchase of new assets or the repayment of debt.
3. In addition to the above reserves, Cheshire Constabulary act as lead force for a number of regional collaborations for which it holds reserves. These reserves are owned by all regional partners on an agreed share basis in line with each collaboration agreement.
4. Over the past few years, the level of reserves held by all forces have been under scrutiny by the Home Office and it is now considered best practice to produce a reserve strategy covering the medium term financial strategy (MTFS) period.
5. Based on the audited Statement of Accounts published in November 2020, £17.3m was held in reserves of which £1.8m belongs to the regional collaborations (of which Cheshire Constabulary is a partner and therefore part owner). Annex 1 sets out the proposed usage of the reserves over the next four years in line with MTFS plans together with other known commitments and liabilities. Reserves are forecast to fall to £13.8m by the end of March 2021 and to £10.5m by March 2025 (including collaborations reserves of £1.4m and £1.2m respectively).

6. As part of the Home Office scrutiny process; it classifies reserves in three main categories:
- a. Funding for planned expenditure on MTFS projects and programmes
  - b. Funding for specific projects and programmes beyond the current MTFS timeline
  - c. Those held as a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management.

Annex 2 provided analysis of the reserves in line with the above.

7. The purpose of each reserve is set out below:

#### **General Reserves**

The purpose of general reserves is to provide funding to cover specific and general risks identified in setting the budget but also in recognition of unforeseen risks and expenditure that may arise in year. Given the current levels of threats and demands facing policing the amount held in this reserve is deemed both prudent and adequate.

#### **Earmarked Reserves:**

##### **Medium Term Financial Strategy (MTFS) Reserve**

The origins of this reserve dates back to the start of the austerity programme and has been successfully used to support transition, implementation costs of transformational changes together with 'invest to save' projects. With increasing demands, the implementation of Digital Policing and the level of uncertainty over future funding, this reserve will provide some mitigation to these risks and challenges.

##### **Redundancy Reserve**

It is recognised that the cost of reforms, efficiencies and restructuring can require changes to staffing levels. This reserve is held to meet any associated costs. While current forecasts do not show any major redundancy pressures, it remains prudent in the current uncertainties to have funding available should it be required.

##### **Pay and Pensions Reserve**

There are currently several issues in relation to pay and pensions that could impact on the revenue funding, the main being the outcome of the McCloud ruling (see financial risks below). The level of administration to service these is considerable and the uncertainty of how these will be funded has resulted in this reserve being created to cover any initial costs. It is anticipated that this will be utilised over the next three years.

**Carry Forward Reserve**

This is a temporary reserve for any underspend from the previous financial year that has been approved to be spent in the following financial year. For example, if a project is delayed funding can be carried forward into the following year to meet delayed spend.

**Proceeds of Crime Community Fund Reserve**

The Commissioner has committed to investing money seized under the Proceeds of Crime Act (POCA) 2002 back into local communities under his Proceeds of Crime Community Fund to send a clear message to criminals that crime doesn't pay.

The Proceeds of Crime Community Fund is split into various funds that will allow:

- Members of the community to bid directly to this fund for activity that supports the prevention crime and anti-social behaviour.
- Allows for applications that facilitate wider community safety.

**Hardship Reserve**

It is acknowledged that individuals may find themselves needing assistance in achieving a greater sense of wellbeing; it is known that wellbeing comprises elements of physical, emotional, social and financial health. As such a scheme has been created to address any short term financial issues personnel (Officers and Staff) may experience. The intent being to prevent/break the cycle of financial difficulty without the exposure to high interest loan schemes (pay day loans). This small reserve covers the loans until repaid.

**Mortgage Guarantee Scheme Reserve**

The PCC and the Constabulary are jointly developing a scheme to enable them to assist Officers and Staff to secure a mortgage as part of a financial wellbeing initiative. This reserve will be used to hold appropriate funds to cover any guarantee until repaid upon implementation of the scheme.

**Revenue Reserve for Capital**

This reserve is for the general funding of capital, especially those annual replacement schemes such as Information Technology.

**HQ IT Reserve**

This reserve was created as part of the private finance initiative (PFI) scheme to support the replacement of computer equipment. It is supplemented each year in line with the scheme's requirement and applied to finance relevant capital.

### **Emergency Services Network (ESN) Reserve**

The Emergency Services Network (ESN) programme will see the current Airwave based communication systems replaced with a new 4G based communication service. All Airwave radios currently used by officers and staff will be replaced with a mobile phone type device which offers improved functionality. Funding will be required for these replacements.

### **Unapplied Capital Grants Reserve**

This reserve contains the capital grant received by the Commissioner but not yet used to finance capital investment. Funding is now generally applied in full in the year it is received, with the exception of specific grants which are applied when the associated expenditure is made.

### **Capital Receipts**

Capital Receipts represents the net proceeds from the sale of assets. Use of this funding is limited by regulation to re-investment in new assets or the repayment of debt.

### **Collaboration Reserves:**

#### **Armed Police Alliance**

This reserve has arisen from underspends in previous financial years due to high turnover of officers. It is being utilised to support training, ammunition and other expenditure to support the training of new trainees to replace these officers.

#### **Underwater Search Unit**

Funding held on behalf of all partners for future demands – e.g. replacement of the boat, vehicles and equipment as part of an agreed asset replacement strategy.

#### **Local Resilience Forum**

Cheshire Resilience Forum partners work together to prepare for emergencies, including Cheshire Constabulary, Cheshire Fire and Rescue Services and local authorities. The reserve is held to support strategic training and as a contingency for unforeseen pressures.

#### **National Blue Light Procurement Reserve**

This is a national collaboration which Cheshire Constabulary leads, with the reserve being held for development of the system in conjunction with the Home Office.

### **Dog Alliance**

The alliance with North Wales Police for the provision of dogs has been a pilot over the last year or so and this reserve is being held to support the transition to a permanent alliance. It is anticipated that this will be finalised within 2021/22.

### KEY RISKS

8. There are a number of uncertainties and risks over the next few years that hold the potential of significant financial impact, not least the Government funding and the impact of the Coronavirus Pandemic. Uncertainty over funding beyond this makes planning difficult and reserves are a key tool in providing flexibility to deal with this challenge.
9. The following set out key financial risks:
  - a. Government funding remains uncertain and is currently only provided on a year on year basis. With no future clarity on funding beyond the next financial year, planning is exceptionally difficult in the medium to long-term.
  - b. The coronavirus pandemic has had a profound impact not just on the UK's economy but the world at large. The level of national debt has increased considerably and together with the restrictions in place to combat infection rates, play into both Government funding options and operational policing. However, the medium to long-term impact of these remains unknown.
  - c. Claims of unlawful discrimination were made in relation to the changes to the Judiciary and Firefighters Pension regulations and in December 2018 the Court of Appeal (McCloud / Sargeant) ruled that the 'transitional protection' offered to some members as part of the reform to public sector pensions amounts to unlawful discrimination. On 16 July 2020 the Government launched a consultation on proposals to remove the discrimination identified and on 21 August, the Home Office issued guidance to Police Forces (in England and Wales) on processing prospective 'immediate detriment' cases in advance of a decision on the Government's final approach to removing the age discrimination. The cost and funding of this remains uncertain.

### FORWARD STRATEGY

10. The foremost principle of holding reserves remains affordability versus risk. To set aside reserves for all potential risks scenarios that may arise would be prohibitively expensive and result in demands on council taxpayers considerably higher than likely need.

11. As such, the strategy for general reserves is to hold the level of this reserve at around 3% of the net budget requirement. The level should be reviewed annually after the budget for the forthcoming year has been set. Any excess will be released in support of capital funding to limit the need to borrow and the associated impact on revenue budgets. Any shortfall will be recognised as a first call on any in-year underspends or built into the following year's budget proposals.
12. Earmarked reserves are reviewed quarterly and reported to the Commissioner as part of the formal financial reviews. The reviews will take into account purpose of the reserve, the risks they are designed to mitigate and the current and future demands. Any reserve deemed no longer required will be returned to general reserves.
13. Strategic risks are monitored through Chief Officer Group, Joint Management Board and Joint Audit Advisory Committee. Any new risk or significant change to existing risks will be monitored with any impact on reserves presented to Chief Officer Group for recommendation to the Commissioner for the creation or adjustment to Earmarked Reserves.
14. Capital reserves are the primary source of funding for all capital investments and are therefore linked to the approved capital strategy. The use of such reserves are designed to cover short-life assets, limiting the need to borrow over short periods.
15. Capital receipts of more than £10,000 from the sale of assets can only be used to fund future capital investment or the repayment of debt. Receipts of less than £10,000 are returned to revenue budget.
16. In recognition of the decreasing level of Government Capital Grant and in order to meet the minimum asset replacement cycles, a revenue contribution is made each year into Revenue Reserve for Capital reserve and used to finance that year's capital programme.

**RESERVES HELD**

	2020/21			2021/22			2022/23			2023/24			2024/25			
	01-Apr £000	Revenue £000	Capital £000	31-Mar £000	Revenue £000	Capital £000	31-Mar £000	Revenue £000	Capital £000	31-Mar £000	Revenue £000	Capital £000	31-Mar £000	Revenue £000	Capital £000	31-Mar £000
Police Fund - General Reserve	£5,773	£0	£0	£5,773	£0	£0	£5,773	£0	£0	£5,773	£0	£0	£5,773	£0	£0	£5,773
<b>Earmarked Reserves: Revenue</b>																
Carry Forwards Reserve	£1,803	-£1,553	£0	£250	£0	-£100	£150	£0	-£150	£0	£0	£0	£0	£0	£0	£0
POCA Reserve	£437	-£437	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Hardship Loan Reserve	£50	£0	£0	£50	£0	£0	£50	£0	£0	£50	£0	£0	£50	£0	£0	£50
Pay and Pensions Reserve	£830	£0	£0	£830	-£330	£0	£500	-£250	£0	£250	-£250	£0	£0	£0	£0	£0
Mortgage Guarantee Scheme Reserve	£500	£0	£0	£500	£0	£0	£500	£0	£0	£500	£0	£0	£500	£0	£0	£500
MTFS Reserve	£2,151	£0	£0	£2,151	£0	£0	£2,151	£0	£0	£2,151	£0	£0	£2,151	£0	£0	£2,151
Redundancy Reserve	£782	£0	£0	£782	£0	£0	£782	£0	£0	£782	£0	£0	£782	£0	£0	£782
	£6,553	-£1,990	£0	£4,563	-£330	-£100	£4,133	-£250	-£150	£3,733	-£250	£0	£3,483	£0	£0	£3,483
<b>Earmarked Reserves: Capital</b>																
Capital Receipts	£2,526	£0	-£2,251	£275	£0	-£275	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Capital Reserve - Unapplied Grant	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
ESN Reserve	£485	£0	£782	£1,267	£0	£1,153	£2,420	£0	-£2,420	£0	£0	£0	£0	£0	£0	£0
HQ IT Reserve	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Revenue Reserve for Capital	£177	£0	£279	£456	£0	-£306	£150	£0	-£150	£0	£0	£0	£0	£0	£0	£0
	£3,188	£0	-£1,190	£1,998	£0	£572	£2,570	£0	-£2,570	£0	£0	£0	£0	£0	£0	£0
<b>Collaboration Reserves:</b>																
Armed Police Alliance Reserve	£321	-£219	£0	£102	£0	£0	£102	£0	£0	£102	£0	£0	£102	£0	£0	£102
Dog Alliance Reserve	£206	£0	£0	£206	£0	£0	£206	£0	£0	£206	£0	£0	£206	£0	£0	£206
Local Resilience Forum Reserve	£145	£51	£0	£195	£0	£0	£195	£0	£0	£195	£0	£0	£195	£0	£0	£195
MFSS Development Fund	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
National Blue Light Procurement	£136	£0	£0	£136	£0	£0	£136	£0	£0	£136	£0	£0	£136	£0	£0	£136
UWSU Reserve	£971	-£159	-£14	£798	£0	-£197	£601	£0	£0	£601	£0	£0	£601	£0	£0	£601
	£1,779	-£327	-£14	£1,437	£0	-£197	£1,240	£0	£0	£1,240	£0	£0	£1,240	£0	£0	£1,240
<b>TOTAL RESERVES</b>	<b>£17,293</b>	<b>-£2,317</b>	<b>-£1,204</b>	<b>£13,771</b>	<b>-£330</b>	<b>£275</b>	<b>£13,716</b>	<b>-£250</b>	<b>-£2,720</b>	<b>£10,746</b>	<b>-£250</b>	<b>£0</b>	<b>£10,496</b>	<b>£0</b>	<b>£0</b>	<b>£10,496</b>

**RESERVES HELD - Home Office classification**

	2020/21			2021/22			2022/23			2023/24			2024/25			
	01-Apr £000	Revenue £000	Capital £000	31-Mar £000	Revenue £000	Capital £000	31-Mar £000	Revenue £000	Capital £000	31-Mar £000	Revenue £000	Capital £000	31-Mar £000	Revenue £000	Capital £000	31-Mar £000
<b>General Reserve / Contingency:</b>																
Police Fund - General Reserve	£5,773	£0	£0	£5,773	£0	£0	£5,773	£0	£0	£5,773	£0	£0	£5,773	£0	£0	£5,773
MTFS Reserve	£2,151	£0	£0	£2,151	£0	£0	£2,151	£0	£0	£2,151	£0	£0	£2,151	£0	£0	£2,151
	£7,924	£0	£0	£7,924	£0	£0	£7,924	£0	£0	£7,924	£0	£0	£7,924	£0	£0	£7,924
<b>Funding for Projects/Programmes - current MTFS</b>																
Armed Police Alliance Reserve	£321	-£219	£0	£102	£0	£0	£102	£0	£0	£102	£0	£0	£102	£0	£0	£102
Capital Receipts	£2,526	£0	-£2,251	£275	£0	-£275	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Capital Reserve - Unapplied Grant	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Carry Forwards Reserve	£1,803	-£1,553	£0	£250	£0	-£100	£150	£0	-£150	£0	£0	£0	£0	£0	£0	£0
Dog Alliance Reserve	£206	£0	£0	£206	£0	£0	£206	£0	£0	£206	£0	£0	£206	£0	£0	£206
ESN Reserve	£485	£0	£782	£1,267	£0	£1,153	£2,420	£0	-£2,420	£0	£0	£0	£0	£0	£0	£0
POCA Reserve	£437	-£437	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Hardship Loan Reserve	£50	£0	£0	£50	£0	£0	£50	£0	£0	£50	£0	£0	£50	£0	£0	£50
Pay and Pensions Reserve	£830	£0	£0	£830	-£330	£0	£500	-£250	£0	£250	-£250	£0	£0	£0	£0	£0
Mortgage Guarantee Scheme Reserve	£500	£0	£0	£500	£0	£0	£500	£0	£0	£500	£0	£0	£500	£0	£0	£500
HQ IT Reserve	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Local Govt Pension Scheme Reserve	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Local Resilience Forum Reserve	£145	£51	£0	£195	£0	£0	£195	£0	£0	£195	£0	£0	£195	£0	£0	£195
MFSS Development Fund	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
National Blue Light Procurement	£136	£0	£0	£136	£0	£0	£136	£0	£0	£136	£0	£0	£136	£0	£0	£136
Redundancy Reserve	£782	£0	£0	£782	£0	£0	£782	£0	£0	£782	£0	£0	£782	£0	£0	£782
Revenue Reserve for Capital	£177	£0	£279	£456	£0	-£306	£150	£0	-£150	£0	£0	£0	£0	£0	£0	£0
UWSU Reserve	£971	-£159	-£14	£798	£0	-£197	£601	£0	£0	£601	£0	£0	£601	£0	£0	£601
	£9,369	-£2,317	-£1,204	£5,847	-£330	£275	£5,792	-£250	-£2,720	£2,822	-£250	£0	£2,572	£0	£0	£2,572
<b>TOTAL RESERVES</b>	<b>£17,293</b>	<b>-£2,317</b>	<b>-£1,204</b>	<b>£13,771</b>	<b>-£330</b>	<b>£275</b>	<b>£13,716</b>	<b>-£250</b>	<b>-£2,720</b>	<b>£10,746</b>	<b>-£250</b>	<b>£0</b>	<b>£10,496</b>	<b>£0</b>	<b>£0</b>	<b>£10,496</b>

## CAPITAL STRATEGY 2020 TO 2026

### 1. INTRODUCTION

- 1.1. The CIPFA Prudential Code for Capital Finance in Local Authorities was updated in December 2017 establishing a framework that supports local strategic planning, asset management and appropriate options appraisal.
- 1.2. The objectives of the Prudential Code are to ensure that the capital plans of an organisation are affordable, prudent and sustainable and the treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

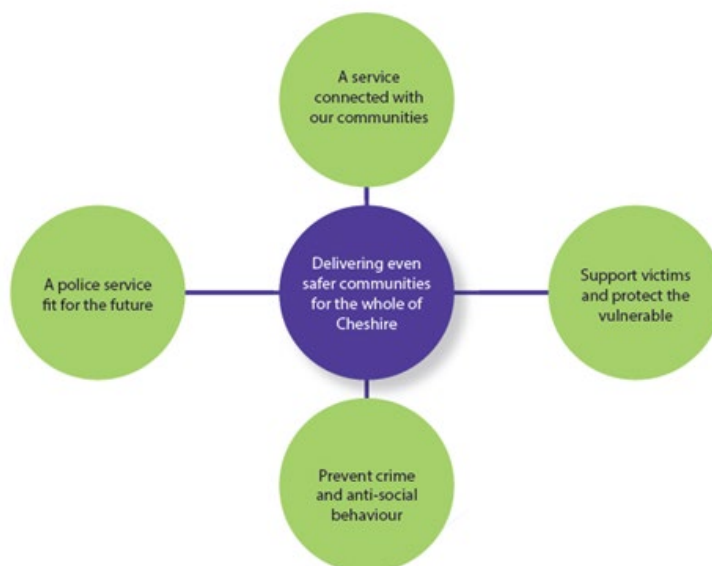
### 2. DEFINITION

- 2.1. To utilise the full extent of the Prudential Code and its framework, it is essential that there is a clear understanding of what is capital expenditure. Unless expenditure qualifies as capital it will normally fall outside the scope of the Code and its framework and be charged to revenue in the period in which its goods or services were received. If expenditure does qualify as capital, there are opportunities to finance such spend from any capital receipts held or to spread the cost over future years in line with the life of the asset(s) purchased.
- 2.2. In the main, expenditure must meet one or more of the following conditions for it to be classified as capital:
  - Spend results in the acquisition, construction or enhancement of an asset (tangible or intangible) in accordance with 'proper practices';
  - Spend meets one of the definitions specified in regulations made under the 2003 Local Government Act; or
  - The Secretary of State makes a direction that the expenditure can be treated as capital.

### 3. CONTEXT

- 3.1. The capital programme requirements of the police sector nationally are by nature limited in comparison to other public sector organisations such as local authorities who have diverse responsibilities to prioritise including Schools, Housing, Highways and Economic Development. Certainly this is true of Cheshire Police with capital expenditure plans largely limited to replacing essential operational assets (e.g. Vehicles, Equipment, Communications Infrastructure) together with individual ad-hoc capital investment schemes required to meet national demands (e.g. Requirements related to the national Emergency Services Network project) or aimed at improving efficiency and operational performance/priorities.

- 3.2. In the Police and Crime Plan, the Commissioner states his vision for policing in Cheshire. The plan sets out a vision in which Cheshire will have a Constabulary focused on community policing and putting victims first. The legacy will be a police service fit for the future which is connected with, based within and accessible to local communities – real community policing. After consulting the public, the Commissioner set out four main priorities as follows:



- 3.3. The Commissioner maintains rolling medium term revenue and capital plans (summarised in a Medium Term financial Strategy – MTFS) that usually extend for 3-4 years. The plans are drawn up, reassessed and extended annually and if required re-prioritised to enable the Constabulary to achieve the aims and objectives established in the Commissioner’s Police and Crime Plan and to support national drivers like the National Policing Vision for 2025.
- 3.4. Prior to the start of austerity, capital grant funding of around £2m was received each year. This helped fund annual replacement of vehicles, IT and operational equipment and maintenance of police buildings. Since austerity this grant funding has severely reduced and currently stands at around £0.17m. This is insufficient to meet the annual replacement programme let alone investment in new technology. As such, with limited reserves held, the need to borrow has increased. Borrowing incurs on-going costs of interest payments and the funding set aside to repay the loan in due course. As borrowing incurs costs, there has been a programme of increasing year on year revenue contributions to fund the capital programme in order to meet the annual replacement programme, with borrowing limited to invest to save or invest to increase efficiency.
- 3.5. Key focuses of the Capital Programme plans, all aligned to achieving the Commissioners priorities above are:
- To ensure the property estate remains fit for purpose, identifying opportunities to streamline assets and develop the estate infrastructure; maintaining core sites and improving core training facilities.
  - The replacement of other core assets where necessary, e.g. vehicles, operational equipment and communication infrastructure.

- Development of improved capability.
- To ensure provision is made for Digital Change Technology to maintain and develop the existing infrastructure and invest in the core technologies required to provide innovative digital policing services.
- Invest to Save Schemes.

3.6. The plans acknowledged the constrained financial position of the Commissioner and maximise both the available financial resources and the capacity that the Constabulary has to manage change projects.

#### 4. GOVERNANCE

4.1. The annual budget setting process is an ongoing process with the Strategic Change team and other key stakeholder groups assisting departmental managers to identify change proposals and develop business cases for future capital investment requirements and ideas aligned with the Police and Crime Plan priorities.

4.2. Business cases must explicitly identify the organisational requirement, rationale, deliverables, benefits, links to OPCC and/or Constabulary priorities, and costs in terms of both capital investment and ongoing revenue consequences.

4.3. Based on an agreed budget setting timetable, business cases will be submitted for presentation to and scrutiny review by the Force Leadership Team along with an initial view of potential affordability. Prioritisation is then made, taking into account the following in order of priority:

- Unavoidable (statutory, contractual, or tortuous liability);
- Operational Need (enables continuity of agreed service delivery levels and priorities);
- Police and Crime Plan Improvement Priority;
- Other (efficiency, invest to save, leverage of external funding, etc.).

4.4. An updated Medium Term Financial Strategy (MTFS), including a recommended Capital Programme, is then presented to the Commissioner, providing views on affordability, potential funding issues and options.

4.5. A final version of the MTFS will be presented to the Commissioner for approval, reflecting the known funding position and any further developmental work on the plan. The formal Commissioner approval, agrees the capital budget for the following year and acknowledges the intention for planning purposes of the remaining years of the MTFS.

4.6. Any approved budget item, capital or revenue, can be 'starred' to reflect the Commissioner's agreement in principle, but no further action can be taken without further approval being obtained when more detailed plans are available.

- 4.7. Where in year additions to the approved Capital Programme are identified, a business case will be prepared and reviewed by the Change Board before being submitted to the Chief Officer Group. The Chief Officer Group will then submit to the Commissioner for consideration and approval, including details of how the new scheme is to be funded, delivered and benefits realised, noting any ongoing MTFS implications.
- 4.8. Currently approved Financial Regulations (Section 4.3) specify individual officer roles and responsibilities relating to the capital programme along with a number of key controls as follows:
- Specific approval by the Commissioner for the three year capital programme which is the key document for planning and controlling of capital expenditure;
  - 'Starred' items require further approval before expenditure can be incurred;
  - Expenditure on capital schemes not included in the programme and/or which would involve future years' commitments is subject to the approval of the Commissioner;
  - Steps are taken to enable land required for the purposes of the programme to be acquired in due time;
  - A scheme and estimate, including the associated revenue expenditure, is prepared for each capital project for approval by the Commissioner;
  - Any scheme not commenced within two years of approval will be deemed null and void and removed from the capital programme;
  - Prudential Indicators covering affordability, capital expenditure, external debt and treasury management;
- 4.9. Following approval of the capital programme, a programme manager or project manager and a user representative is identified for each capital project. That individual is responsible for managing the project implementation and delivering its objectives. For all projects within the capital programme a Chief Officer is identified as project sponsor.
- 4.10. Monitoring progress against capital schemes is reported on at least a quarterly basis to the Change Board and Chief Officer Group and to Joint Management Board.
- 4.11. Once projects have been completed the programme or project manager completes a post implementation review for the major capital projects. This includes identifying at what stage the post project review will be carried out. The post project report is reviewed by the Change Board and escalated to the Chief Officer Group if required.
- 4.12. To evaluate the actual success and outcomes of capital projects a post project review is also carried out. The depth of this review is proportionate to the scale of the project and the benefits set out in the initial Project Initiation Documentation. This review focuses on the outcomes achieved, the extent to which the benefits claimed are being realised, the actual costs, both revenue and capital, and the impact of other funding and partnership working.
- 4.13. This information can then be used to learn lessons and make any improvements identified during project implementation.

## 5. FUNDING STREAMS

5.1. Capital expenditure can be funded from a number of sources as set out below:

- **Government Grants** – these are either general grants which can be used to fund any capital spend approved by the Commissioner or specific grants which can only be used to fund specific projects in line with any conditions placed with the grant;
- **Capital Receipts** – when an asset held by the Commissioner is sold, the proceeds are held in reserve to be used either to fund future capital expenditure or to repay debt. They cannot be used to fund revenue expenditure;
- **Reserves** – funds can be set aside and held in earmarked reserves if known expenditure is to be incurred at a future date. These reserves can then be used to fund such expenditure be it capital or revenue. In terms of capital expenditure, it may be known that a specific asset may need replacing in 10 years and therefore funds are set-aside each year to build up the reserve to fund the replacement. Details of the reserves held are found within the Commissioner’s Reserves Strategy;
- **External Contributions** – these are funds or grants provided by external organisations such as collaboration partners or local authorities for specifically agreed capital expenditure; and
- **Borrowing** – the Commissioner is permitted in law to take out loans or financing to fund capital expenditure. The Prudential Code sets out the requirements under which such borrowing must be undertaken including affordability, prudence and cost effectiveness. Any borrowing will incur costs for interest payable and the need to set-aside sufficient funds to repay the loan. These costs impact on the revenue budget.

## 6. CAPITAL PROGRAMME

6.1. The following table shows the Commissioner’s overall Capital Programme and how it is to be funded from 2020/21 to 2025/26, figures quoted include both in year approvals and schemes rolled forward from previous years. They therefore, represent estimates of total capital expenditure in each year:

2020/21 Estimate £000		2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
	<u>Expenditure:</u>					
	Annual Replacement Schemes:					
1,760	Fleet Vehicles	2,677	1,810	1,970	2,180	2,200
972	IT and Communications	540	540	540	540	540
	New Schemes:					
681	Estates* <sup>1</sup>	2,060	600	600	600	600
2,125	IT and Communications* <sup>2</sup>	3,215	7,650	0	0	0
742	Operational Equipment	543	253	214	614	200
352	Collaboration/Funded Vehicles	362	0	0	0	0
<b>6,632</b>	<b>Capital Expenditure</b>	<b>9,397</b>	<b>10,853</b>	<b>3,324</b>	<b>3,934</b>	<b>3,540</b>

2020/21 Estimate £000		2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
	<u>Financed by:</u>					
205	General/Specific capital grants	267	0	0	0	0
2,251	Capital Receipts	275	0	0	0	0
2,775	Revenue Contributions to Capital	2,696	2,650	3,000	3,000	3,000
229	External Contributions to Capital	307	0	0	0	0
0	ESN Reserve	0	3,485	0	0	0
221	HQ IT Reserve	221	221	221	221	221
951	Borrowing	5,631	4,497	103	713	319
<b>6,632</b>	<b>Total Funding</b>	<b>9,397</b>	<b>10,853</b>	<b>3,324</b>	<b>3,934</b>	<b>3,540</b>

\*1 An updated Estates Strategy is currently being jointly developed between the Constabulary and the OPCC. It is recognised that any changes to the estates footprint may require additional capital financing and this would be the subject of a business case being approved through the appropriate governance structure. As specific business cases are approved and funding identified these will be added into this strategy.

\*2 Includes estimated cost of the new Emergency Services Network (ESN) devices.

## 7. AFFORDABILITY

7.1. Capital expenditure plans are a key driver of treasury management activity. The funding of such plans impact on cash balances and borrowing requirements in the short and longer terms. The on-going consequences of these decisions have a direct impact on the annual revenue budget. As such, having regard to the CIPFA Prudential Code for Capital Finance in Local Authorities, the Commissioner sets and reviews a number of prudential indicators showing the proposed capital expenditure plans, how they are to be funded, the impact on the organisation's finances and their affordability in terms of the impact on revenue budgets.

7.2. Full details and commentary on the prudential indicators are found within the Commissioner's Treasury Management Strategy 2021/22. Along with controls and limits relating to levels of capital expenditure and resulting borrowing requirements, these prudential indicators also include a specific affordability indicator, below, which provides an indication of the impact of the above capital expenditure plans and their financing proposals on the overall finances and precept (council tax):

*Treasury management Strategy 2021/22 - Table 5: Ratio of financing costs to net revenue funding*

2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
1.17%	1.18%	1.17%	1.30%	1.63%	1.57%	1.55%

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

- 7.3. The above ratio is increasing due largely to the significant reduction in available capital grant funding since the start of austerity and the requirement to increase borrowing in order to finance the capital programme from 2018/19 onwards. The affordability of this will therefore continue to be reviewed alongside the MTFS.
- 7.4. The impact of adding strategic Estates Strategy projects on a project by project basis as individual business cases are developed will be considered as part of the funding identification and approval process.

## 8. RISK MANAGEMENT

- 8.1. Risk is the threat that an event or action will adversely affect the Commissioner's ability to achieve his desired outcomes and the Constabulary's ability to execute his strategies successfully. Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.
- 8.2. The aim is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties. The corporate risk register sets out the key risks to the successful delivery of corporate aims and priorities and outlines the key controls and actions to mitigate and reduce risks, or maximise opportunities.
- 8.3. To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored. It is important to identify the appetite for risk by each scheme and for the capital programme as a whole, especially when investing in complex business change programmes. Where greater risks are identified as necessary to achieve desired outcomes, the organisation will seek to mitigate or manage those risks to a tolerable level. All key risks identified as part of the capital planning process are considered for inclusion in the corporate risk register.
- 8.4. The Director of Finance and Assistant Chief Officer will report jointly on the deliverability, affordability and risk associated with this Capital Strategy and the associated capital programme. Where appropriate they will have access to specialised advice to enable them to reach their conclusions.
- 8.5. Credit Risk - The risk that an organisation with which we have contracted to deliver capital projects becomes insolvent and cannot complete the agreed contract. We will ensure that robust due diligence procedures cover the appointment of partners and contractors relating to capital programme delivery. Where possible contingency plans will be identified at the outset.
- 8.6. Liquidity Risk - This is the risk that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. There is also a risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes and mitigating actions taken promptly where appropriate.

- 8.7. Interest and Exchange Rate Risk - This is the risk that interest rates or exchange rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.
- 8.8. Inflation Risk - This is the risk that rates of inflation will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates of inflation will be reviewed as part of the ongoing monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.
- 8.9. Legal and Regulatory Risk - This is the risk that changes in laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into capital expenditure or making capital investments, the Commissioner will understand the powers under which the investment is made. Forthcoming changes to relevant laws and regulations will be kept under review and factored into any capital bidding and programme monitoring processes.
- 8.10. Fraud, Error and Corruption - This is the risk that financial losses will occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the agreed Code of Corporate Governance. Cheshire Constabulary has a strong ethical culture which is evidenced through our values, principles and appropriate behaviour. This is supported by the national Code of Ethics and detailed policies such as Anti-Fraud and Corruption and Declaration of Interests.

## 9. FUTURE ACTIONS

- 9.1. This capital strategy currently looks ahead over the next 5 years to 2026. It will be reviewed to consider whether it would be appropriate and of value to extend this period to cover a longer term period of for example 10 or 20 years. In particular, one of the major hubs for the ongoing and high profile national HS2 project will be within the Cheshire area which could have some medium to longer term impact on our future Capital Programme requirements. The implications of HS2 will therefore continue to be reviewed alongside our capital strategy plans as the project develops and progresses.
- 9.2. An updated Estates Strategy is currently being jointly developed between the Constabulary and the OPCC. It is recognised that any changes to the estates footprint may require additional capital financing and this would be the subject of a business case being approved through the appropriate governance structure. As specific business cases are approved and funding identified these will be added into this strategy.
- 9.3. In view of the significant reduction in ongoing government funding towards capital programme expenditure since the commencement of austerity measures, investigation will be made aimed at identifying alternative potential funding sources which will include the extension of partnerships and collaborations.
- 9.4. It will be continually reviewed in light of emerging and changing local issues, circumstances and priorities.