MANAGEMENT BOARD

Tuesday 31 January 2017

10.00am

Conference Room, Office of the Police & Crime Commissioner, Clemonds Hey, Oakmere Road, Winsford, CW7 2UA

AGENDA

For further information about this Agenda, please contact:-
Martin Eaton on 01606 364005 or Mandy Guest on 01606 365036

NOTES FROM THE MANAGEMENT BOARD HELD ON 4 JANUARY 2017 IN THE CONFERENCE ROOM, OFFICE OF THE POLICE & CRIME COMMISSIONER, CLEMONDS HEY, WINSFORD.

Present: D Keane, Police & Crime Commissioner
J McCormick, Deputy Chief Constable

Office of the Police & Crime Commissioner
M Sellwood, Chief Executive
L Lunn, Chief Finance Officer
M Eaton, Governance Officer
T Stewart, Apprentice

Cheshire Constabulary
J Gill, Assistant Chief Officer
D Bryan, Force Solicitor
W Bebbington, Head of Finance

Part 1 – Public items

The notes of the meeting held on 2 November 2016 were accepted and the action log reviewed.

2017/2 MEDIUM TERM FINANCIAL STRATEGY 2017-22

The Commissioner and the Deputy Chief Constable considered the draft Medium Term Financial Strategy (MTFS) which detailed the financial scenario for 2017-22; the plan to meet the scenario; and took into account a number of important strategic developments which had a key effect upon the scenario.

The Deputy Chief Constable supported the proposal and the Commissioner, subject to the minor changes discussed at the meeting, approved:-

(1) the MTFS including the provisional funding levels and financial assumptions, and the provisional staffing assumptions; and

(2) the submission of a detailed 2017/18 budget report to Management Board on 31 January 2017.

The Commissioner's rationale for the decision was that the Medium Term Financial Strategy 2017-22 was fundamental in promoting good financial planning, the delivery of value for money and ensuring operational threats and risks were addressed and managed to protect frontline policing and make Cheshire's communities safer.

2017/3 PRIORITY BASED BUDGETING: CHANGE PROCESS

Note 2017/8 refers

2017/4 ESTATE STRATEGY PRINCIPLES

The Commissioner and the Deputy Chief Constable considered the principles for finalising the Estates Strategy for 2017-20.

The Deputy Chief Constable supported the proposal and the Commissioner approved the proposed Estate Strategy principles as amended at the meeting.

The Commissioner's rationale for the decision was that the Estates Strategy principles would assist in delivering a modern, fit-for-purpose estate and would support the delivery of the Police & Crime Plan.

2017/5 REPORT FROM AUDIT ADVISORY COMMITTEE

The Commissioner considered the minutes of the Audit Advisory Committee held on 16 November 2016.

The Commissioner welcomed the proposed work 2017/18 programme for External Audit, fees and the distribution of the surplus as detailed in the report and this be conveyed to Public Sector Audit Appointments as part of the national consultation process.

The Commissioner's rationale for the decision was that the freezing of the external audit fee level and the redistribution of surplus fees was welcomed.

2017/6 PROCUREMENT OF EXTERNAL AUDIT

The Local Accountability and Audit Act (2014) gave local bodies the freedom to appoint their own external auditors from an open and competitive market and manage their own audit arrangements. The Secretary of State had also provided an option whereby Public Sector Audit Appointments Limited were managing a national appointment process for local government, police and fire bodies who choose to opt into the scheme.

The Commissioner and the Deputy Chief Constable considered a report which evaluated the options available to procure the external audit service for implementation by 31 December 2017.

The Commissioner and the Deputy Chief Constable approved Option 2 as set out in the report, subject to the final procurement demonstrating value for money.

The Commissioner's rationale for the decision was that this would enable new arrangements for the procurement of external audit to be introduced in-line with the national timetable for implementation.

2017/7 JOINT STRATEGIC RISK REGISTER

Note 2017/9 refers

Part 2 – Private items

The following matters were considered in private as they involved the likely disclosure of exempt information relating to Information intended for future publication, Law Enforcement and Commercial Interests, sections 22, 31 & 43 of the Freedom of Information Act 2000.

2017/8 PRIORITY BASED BUDGETING: CHANGE PROCESS

The Commissioner considered a report on the proposed resourcing changes arising from the third annual Priority Based Budgeting (PBB) process and sought approval to commence formal change processes. The process enabled the Constabulary to meet the financial and operational challenges for 2017/18 and to:-

- Continue the established prudent approach to financial and workforce planning, setting priorities that are informed by demand, risk and threat;
- Protect Neighbourhood Policing and enhance Beat Management;
- Align technology to enable future collaborations (NICHE);
- Collaboration to maximise back office efficiency (Fusion);
- Investment in the workforce to develop skills, fit for the future;
- Estates modernisation; and
- Investment in multi-agency safeguarding.

The Deputy Chief Constable discussed the proposals and impact on the Constabulary.

The Commissioner approved:-

(1) the proposed amendments to the Constabulary establishment for the purposes of collective consultation which would commence on 9 January 2017; and

(2) the outcome of collective consultation and proposed costs of voluntary redundancy be reported to Management Board on 23 February 2017 or by Management Decision, if required earlier.

The Commissioner's rationale for the decision was that this would enable collective consultation to commence on the proposed changes arising from the 2016/17 Priority Based Budgeting process.

2017/9 JOINT STRATEGIC RISK REGISTER

The Commissioner and the Deputy Chief Constable considered the Joint Strategic Risk Register.

The Commissioner and the Deputy Chief Constable approved:-

(1) the Joint Strategic Risk Register, risk analysis and action overview; and

(2) the proposals as detailed in part 2 of the report.

The Commissioner's rationale for the decision was that the effective management of strategic risk would support the delivery of high quality policing services.

Duration of meeting: The meeting commenced at 10.00am and finished at 10.25am.

Cheshire Constabulary

David Keane
Police & Crime Commissioner
for Cheshire

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MANAGEMENT BOARD	
DECISION NO. 2017/10	DATE: 31 JANUARY 2017

TREASURY MANAGEMENT STRATEGY 2017/18

Executive Summary:

To present the Treasury Management Strategy for 2017/18 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 2017/18 including:

- the Ratio of financing costs to net revenue funding and the Incremental Impact on Council Tax Band D (Appendix 1, paragraph 4.3.3);
- the Authorised Limits (Appendix 1, paragraph 5.3.5);
- 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 (Annex).

I have reached the following decision:-

Agree 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 31 January 2017**

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 Police & Crime 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, however the figures included in the prudential indicators will be different to the budget report, as the indicators are based on most probable actual expenditure i.e. cashflow, as opposed to budgeted costs. 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 (paragraph 5.3.5) 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 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. Recent high profile events have identified the risks associated which such activity and an Annual Investment Strategy is included within the overall Treasury Management Strategy setting out what types on 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 Capita’s investment guidance which is monitored daily and only those meeting the minimum requirement are chosen as counter-parties. Capita 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 agree to 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.

Document Titles
Local Government Act 2003
Communities and Local Government's Minimum Revenue Provision (MRP) Guidance
CIPFA Treasury Management Code
CIPFA Prudential Code
Communities and Local Government's Investment Guidance

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

CHIEF OFFICER DECLARATION:

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 24 January 2017**

CHIEF FINANCE OFFICER DECLARATION:

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 Liz Lunn **Date 24 January 2017**

APPENDIX 1

TREASURY MANAGEMENT STRATEGY 2017/18

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 the 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 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.'*

2. 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 management indicators); and
- an Investment Strategy (the way in which investments are to be managed).

A Mid-Year Treasury Management Report – (reported Oct-16) 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 provides details of a selection of actual prudential and treasury management indicators and the actual results for investments and borrowings against forecasts.

3. TREASURY MANAGEMENT STRATEGY 2017/18

3.1 The Treasury Management Strategy covers two main areas:-

Capital:

- The capital plans and 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, 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 From 1 April 2012 Capita Treasury Services Limited has provided treasury management advice. However, it is recognised that responsibility for treasury management decisions remains with the Office of the Police & Crime Commissioner 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. The contract for such services is currently in the process of being retendered from 1st April 2017.

4. CAPITAL EXPENDITURE PRUDENTIAL INDICATORS 2017-20

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 cash spend as at Third Quarter Review rather than the full budgeted capital programme, as affordability is based on actual cash movement.

Table 1: Capital Expenditure

	£000
2016/17 Outturn (TQR Estimate)	15,901
2017/18 Estimate	9,930
2018/19 Estimate	11,276
2019/20 Estimate	7,201

4.1.3 The next table shows how the above capital expenditure is to be financed. If there is a shortfall in available funds, the shortfall will be covered by additional borrowing. It is anticipated that additional borrowing will be required over the period.

Table 2: Capital Financing

	2016/17 Outturn Estimate £000	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**
Forecast Spend	15,901	9,930	11,276	7,201
Financed by:				
General capital grants	763	600	500	400
Specific capital grants	303	325	591	0
Capital Receipts	2,851	5,252	5,191	370
Capital Reserves & Contributions	7,970	855	1,405	1,500
HQ IT Reserve	202	202	196	202
Borrowing requirement	3,812	2,696	3,393	4,729

4.2 Capital Financing Requirement (or borrowing needs)

4.2.1 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.

4.2.2 It should be noted that the Capital Financing Requirement increases during the period of the current MTFS, reflecting the increased borrowing requirement due to increased capital expenditure, and a reduction in other funding sources.

Table 3: Capital Financing Requirement (CFR)

	2015/16 Actual £000	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**
Borrowing Requirement	23,568	27,254	29,073	31,494	35,091
Other long term liabilities	22,962	21,273	20,451	19,543	18,549
Total CFR	**46,530**	**48,527**	**49,524**	**51,037**	**53,640**
Movement in CFR		**1,997**	**997**	**1,513**	**2,603**

4.2.3 In addition to the capital expenditure borrowing requirements, the Capital Financing Requirement also includes other long-term financial liabilities relating to Constabulary Headquarters, and the finance lease for Charles Stewart House (purchased Sept 2016) for 2015/6 and 2016/17 only. 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.

4.2.4 As previously mentioned, 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 2016/17 annual statement is set out in the Annex.

4.3 Core Funds and Expected Investment Balances

4.3.1 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, and are based on actual and forecast cash spend as at Third Quarter Review rather than the full budgeted capital programme, as affordability is based on actual cash movement. 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.

4.3.2

Table 4: Reserves

	31 March 2016 Actual £000	31 March 2017 Estimate £000	31 March 2018 Estimate £000	31 March 2019 Estimate £000	31 March 2020 Estimate £000
MTFS Reserve	(2,925)	(1,103)	(932)	(932)	(932)
LGPS Actuarial Deficit Payment Reserve	(1,205)	(1,800)	(600)	0	0
Redundancy Reserve	(882)	(482)	(482)	(482)	(482)
Carry Forward Reserve	(72)	0	0	0	0
	(5,084)	(3,385)	(2,014)	(1,414)	(1,414)
Capital Earmarked Reserves					
Capital Receipts	(7,140)	(4,530)	(491)	0	0
Revenue Reserve for Capital Expenditure	(8,799)	(404)	(404)	0	0
Unapplied Capital Grants	(6)	(841)	(591)	0	0
IT Reimbursement Reserve	0	0	0	(6)	(6)
	(15,945)	(5,775)	(1,486)	(6)	(6)
Revenue General Reserve					
General Fund	(5,798)	(5,773)	(5,773)	(5,773)	(5,773)
Total Reserves	**(26,827)**	**(14,933)**	**(9,273)**	**(7,193)**	**(7,193)**

Affordability Prudential Indicators

4.3.3 So far the Strategy has covered the control of overall capital expenditure plans and borrowing prudential indicators. Following on from these are the prudential indicators which assess the affordability of the capital expenditure plans. These provide 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 indicators:

Table 5: Ratio of financing costs to net revenue funding

2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
1.03.%	0.86%	0.94%	1.51%	1.76%

The estimates of financing costs include current commitments and the proposals included in the budget/medium-term financial strategy. The ratios have moved mainly due to the requirement to increase borrowing in order to finance the 16/17 and 17/18 capital programme.

The second affordability indicator identifies the direct impact of these proposals on the revenue budget and precept (council tax). The following indicates the increase or decrease on the precept charge if the proposals are approved.

Table 6: Incremental Impact on Council Tax Band D (£p)

2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
(0.13)	(0.81)	2.51	1.10	1.17

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 Commissioner's needs. 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.

5.2 Current Debt Position

5.2.1 The current debt position, as at 31 March 2016, with forward projections is summarised below. The table shows actual external debt against the underlying capital borrowing need highlighting any under or over borrowing.

Table 7: Debt Position

	2015/16 Actual £000	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**
External Debt as 1 April	16,878	16,778	20,590	23,286	26,679
Add/(less): net movement in year	(100)	3,812	2,696	3,393	4,729
Other Long term Liabilities	23,076	22,149	21,272	20,450	19,542
Add/(less): net movement in year	(927)	(877)	(821)	(909)	(993)
Gross Debt Position at 31 March	38,927	41,862	43,737	46,220	49,957
Less: Capital Financing Requirement	46,429	48,526	49,524	51,036	53,640
(Under) / Over Borrowing	(7,502)	(6,664)	(5,787)	(4,816)	(3,683)

5.2.2 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 2017/18 and the following two financial years. This allows some flexibility for limited early borrowing for future plans but ensures that borrowing is not undertaken for revenue purposes.

5.2.3 The Chief Finance Officer 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 Medium Term Financial Strategy for 2017-22 approved by Management Board on 4th January 2017.

5.3 Treasury Indicators – limits to borrowing activities

5.3.1 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 5.2 above plus the forecast requirement for external financing over the next three years.

5.3.2 **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.

5.3.3 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 borrowing for cashflow purposes and the impact of any finance leases but without the additional headroom of all future years' capital financing proposals which are included in the authorised limit.

Table 8: Operational Boundary

	2017/18 Estimate £000	**2018/19 Estimate £000**	**2019/20 Estimate £000**
Debt	31,711	36,537	39,521
Other long term liabilities	20,349	19,441	18,447
Total	52,060	55,978	57,969

5.3.4 As Table 8 shows, the Operational Boundary over the period 2017-20 is increasing because of the planned borrowing to support the capital programme. This is partially offset due to the amount set aside each year to reduce borrowing and financial liabilities known as MRP.

5.3.5 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.

5.3.6 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.

5.3.7 The Commissioner is requested to approve the following authorised limits.

Table 9: Authorised Limit

	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Debt	33,711	38,537	41,521
Other long term liabilities	20,349	19,441	18,447
Total	54,060	57,978	59,969

5.4 Prospects for Interest Rates

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

Source: Capita Asset Services

5.4.1 Whilst counterparty risk appears to have eased, market sentiment has still been subject to bouts of, sometimes, extreme volatility and economic forecasts abound with uncertainty. However, we also have a very accommodating monetary policy - reflected in a 0.25% Bank Rate. As a consequence, returns from deposits remain low.

5.4.2 The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August 2016 in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take.

5.4.3 Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

5.4.4 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future. The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

5.4.5 Apart from the above uncertainties, downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

5.4.6 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include: -

- UK inflation rising to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Investment and borrowing rates

- Investment returns are likely to remain low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the

referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a ‘hard Brexit’, the fall in the value of sterling, and an increase in inflation expectations. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

5.5 Borrowing Strategy

5.5.1 As shown in Table 7, the Commissioner is currently under-borrowed 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 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 the limited investment return on surplus cash flow and counter-party risk are still issues that need to be considered. The risks associated with this Strategy are twofold, firstly the Commissioner could run out of cash should all reserves be utilised quickly at which point borrowing would be required and secondly, when the need to re-finance the internal borrowing arises, without careful planning, the Commissioner will be exposed to the prevailing interest rates at that time which may not be the most favourable.

5.5.2 Against this background and the identified risks, the Chief Finance Officer will monitor interest rates and adopt a pragmatic approach to changing circumstances, supported by advice from the external Treasury Management advisers.

5.5.3 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.

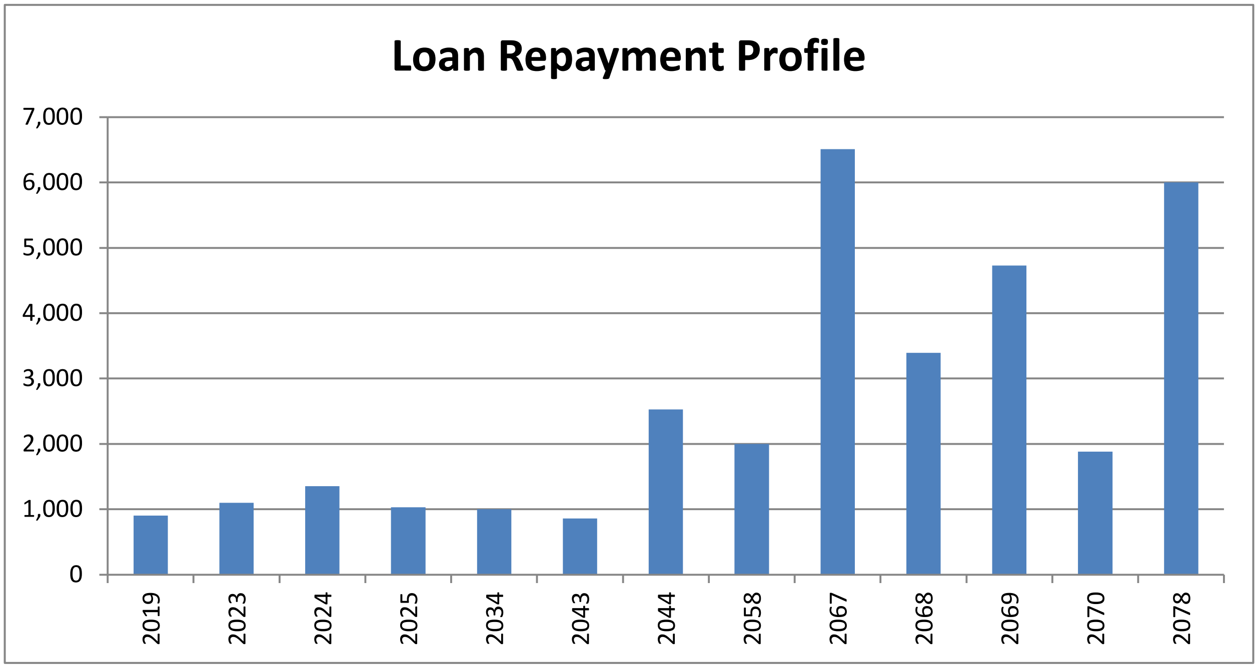
5.6 Debt Rescheduling

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.



5.6.4 The majority of the borrowing is on a fixed rate basis with the current overall weighted average of 4.36% which is still favourable even at the current interest rates. 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 were felt that there was a significant risk of a sharp rise in short and long-term rates, perhaps arising from a greater than expected increase in world economic activity or inflationary pressure, the debt portfolio would 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 loans.

5.6.6 The introduction of different Public Works Loan Board (PWLB) rates on 1 November 2007 for new borrowing as opposed to early repayment of debt has meant that restructuring PWLB loans is now less attractive. However significant interest savings may still be achievable through the use of other market loans and this will be kept under review throughout the year and any changes reported to the Commissioner as part of the standard reporting cycle.

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 10: Interest Rate Limits

	2017/18	2018/19	2019/20
	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 11: Maturity structure of fixed interest rate borrowing 2017/18

	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 In accordance with the above guidance and codes and in order to minimise the risk to investments, the Commissioner sets out in 6.2 the minimum acceptable credit quality of counterparties for inclusion on the approved lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies (Fitch, Standard & Poor and Moodys) with a full understanding of what these reflect in the eyes of each agency. Using the Capita ratings service, potential counterparties are monitored on a real-time basis with knowledge of any changes notified electronically as the agencies publish amendments.

6.1.3 Ratings are not used as a sole determinant of the quality of an institution. It is also important to continually assess and monitor the financial sector on both a local and international basis and the economic and political environments in each the counterparties operate. The assessment will also take into account information that reflects the opinion of the financial markets. To this end, the Commissioner will engage with the Treasury Management advisors to monitor market influences and pricing such as 'credit default swaps' where appropriate and available. This forms a fully integrated credit methodology provided by Capita in producing its colour codings which show the varying degrees of suggested creditworthiness.

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

6.1.5 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoid any concentration of risk. The intention of this strategy is to provide security of investment and minimisation of risk.

6.1.6 Investment instruments identified for use in the financial year are listed in the table below. Counterparty limits will be set through the Commissioner's Treasury Management Practices and are currently at £10m per organisation/group.

Table 11: Approved Investment Instruments

Specified Investments (maturities up to one year) ▫ Bank & Building Societies Term Deposits ▫ Other Local Authority Term Deposits ▫ Debt Management Agency Deposit Facility Non-Specified Investments (maturities over one year) ▫ Bank & Building Societies Term Deposits ▫ Other Local Authority Term Deposits Other Non-Specified Investments ▫ Fixed term deposits with variable rates & maturities ▫ Money Market Funds

6.2 Creditworthiness Policy

6.2.1 The Commissioner utilises the creditworthiness service provided by Capita as his Treasury Management advisers. This service employs a sophisticated modelling approach incorporating credit ratings from the three main credit rating agencies – Fitch, Moodys and Standard and Poor. 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 overlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative standing 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:

- 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 Capita's credit listings and in-between via business press. The Commissioner is alerted to changes to any ratings via email from Capita.

6.2.4 In response to changes to the ratings, the Commissioner approved the following action:

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

6.2.5 Sole reliance will not be placed on the use of this external service. In addition to Capita, the Commissioner's officers will also use market data and information, information on the Government's support for banks and the credit ratings of that support.

6.3 Country Limits

6.3.1 The Commissioner has determined that he will continue to use UK banks only, and only use approved counterparties 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.

6.4.2 The Commissioner would seek to maintain at all times a core liquid balance of £5m, 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) in order to benefit from the compounding of interest.

6.4.4 Bank Rate is forecast to stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:
2016/17 0.25%

2017/18 0.25%
2018/19 0.25%
2019/20 0.75%

6.4.5 An agreement on EU money market funds regulation has been agreed by the European Parliament, Council and Commission, relating to a new category of Money Market Fund: Low Volatility Net Asset Value MMF (LVNAV MMF), with the key objectives of preventing future systemic risks and runs on the funds. In the short term, this should not impact upon the Commissioner's investment strategy. However, any changes in availability of, and investment returns from, MMFs will continue to be closely monitored.

6.4.6 The Markets in Financial Instruments Directive (MiFID) is the EU legislation that regulates firms who provide services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded. The new MiFID II environment is set to commence on 3rd January 2018, and under this new regime, Local Authorities will be deemed "Retail" clients by default. They will have the option to "opt-up" to "Professional" client status, or remain as "Retail".

6.4.7 The option to opt-up is not a one off exercise. It will need to be undertaken with each and every counterparty / fund manager that the Commissioner may wish to transact. The decision to maintain "Retail" status may limit the investment options available, compared to "Professional" status. The decision may rest on what options are available under each status, and which is, therefore, most appropriate. Further consultation is to take place with the Financial Conduct Authority (FCA).

6.5 End of Year Investment Report

6.5.1 At the end of the financial year, the Chief Financial Officer will report on the Commissioner's investment activity as part of the Annual Treasury Report.

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, or in the case of borrowing supported by formula grant, reasonably commensurate with the period implicit in the determination of the grant.

7.2 As a result of the proposed capital programme, just under 50% of the 2016/17 Capital Financing Requirement will relate to the more historic debt liability that will continue to be charged at the rate of 4% in accordance with the Guidance (Capital Financing and Accounting, England Amendment Regulations 2008). 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. Items of capital expenditure will only be divided up when considering schemes in this, or any other context, in cases where two or more major components have substantially different useful economic lives. 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. 2017/11	**DATE: 31 JANUARY 2017**

2017/18 BUDGET AND COUNCIL TAX PRECEPT

Executive Summary:

The Commissioner is required to set an annual budget and precept (the Commissioner's element of council tax) taking into account Government funding, precept regulations and organisational demands. The purpose of this report is to enable the Commissioner to finalise the budget. The detailed 2017/18 budget is contained in the report attached at Appendix 1.

Recommendation:

(1) the Police & Crime Panel be notified that it is proposed to increase the police element of council tax by 1.99% for a Band D equivalent property for 2017/18, from £161.23 to £164.44;

(2) the net budget requirement for the financial year commencing 1 April 2017 be set at £164,909,868 (£192,985,506 gross budget), based on no change to Government grant allocations in the final settlement and, subject to review by the Police & Crime Panel, a Band D council tax increase of 1.99%;

(3) the proposed 2017/18 precepts be as follows:-

	Number of Band D equivalent houses	Precept on Collection Fund £
Cheshire East	144,201.5	23,712,496
Cheshire West and Chester	116,329.0	19,129,141
Halton	33,818.0	5,561,032
Warrington	66,527.0	10,939,700
Total	360,875.5	59,342,369

(4) the provisional surplus of collection funds allocated to the Commissioner of £804,920 included in the budget be noted and the accounting for any amendments to this amount through the Medium Term Financial Strategy reserve, be approved;

(5) the provision of £2,019,471 for pay and price increases, as set out in Table 2 of the budget report, be approved;

(6) net commitments of £2,433,698 as set out in Table 3 of the report, be approved;

(7) the priority developments and growth totalling £2,926,519 as set out in paragraph 16 of the report, be approved;

(8) the savings proposals for 2017/18, totalling £5,403,622, as set out in paragraphs 21 to 27 of the budget report, be approved for implementation;

(9) the total estimated number of police officers, PCSOs and staff be agreed as follows as at 31 March 2018:

Police Officers	2003.3
PCSOs	210.0
Police Staff	1231.2
	3444.5

(10) the Community Safety Fund be approved at £1,019,983 for 2017/18, as set out in paragraph 34;

(11) the Safer Communities Fund be maintained at £60,000 for 2017/18 as set out in paragraph 35;

(12) 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 2017/18 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.

(13) the proposed use of reserves as set out at Appendix 4, be approved;

(14) the 2017/18 capital programme of £11,252,000 and financing as set out in paragraphs 36 to 38 of the report, be approved;

(15) those capital schemes annotated as starred items at Part 2, Appendix 7, be submitted in full detail to the Management Board before expenditure is committed; and

(16) the detailed list of priority developments and growth together with savings as set out in the Part 2, Appendices 5 and 6, be approved together with the list of departmental revenue budgets used for in-year monitoring, in Appendix 8.

I submit this recommendation for approval:-

Signature **Date 31 January 2017**

Chief Constable

I have reached the following decision:-

My rationale for this decision is:-

Signature **Date 31 January 2017**

Police & Crime Commissioner

PART 1 – NON-CONFIDENTIAL FACTS AND ADVICE

INTRODUCTION AND BACKGROUND

1. The attached 2017/18 Revenue Budget and Council Tax report sets out the proposals for the forthcoming year to enable the Commissioner to approve the budget and propose a precept and notify the Police & Crime Panel of these proposals for their meeting on 3 February 2017.

2. The Police & Crime Panel will then consider the proposed 2017/18 precept and either accept or veto it by 8 February 2017 in line with the statutory timetable. If the proposal is accepted by the Panel, the Commissioner will issue the precept. Should the Panel veto the precept, the Commissioner will consider their report and propose a revised precept by 15 February 2017. The Panel will then review the Commissioner's response and report back to him by 22 February 2017, at which point the Commissioner will finalise the budget and issue the precept by 1 March 2017.

IMPACT ASSESSMENTS/IMPLICATIONS/RISKS

3. Full impact details and comments are included in the appendices to this report.

FINANCIAL COMMENTS

4. Full financial details and comments are included in the appendices to this report.

LEGAL COMMENTS

5. The recommendations in this report, if approved will fulfill the Commissioner's duties under the Police Reform and Social Responsibility Act 2011 to decide the budget, allocate assets and funds to the Chief Constable, and propose the police element of the precept for the force area.

EQUALITY COMMENTS

6. Equality impact assessments have been completed and taken account of at earlier stages of budget proposals, for example as part of the Priority Based Budgeting exercise carried out in 2016. Further equality impact assessments will be completed, as required, in advance of the implementation of various elements of the budget.

Document Titles
Autumn Statement 2016
Provisional 2017/18 Grant Settlement
Medium Term Financial Strategy 2017-22

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 – YES Commercial Interests - Section 43
Contact Officer: Julie Gill, Assistant Chief Officer & S.151 Officer Tel. No.: 01606 362450 Email: julie.gill@cheshire.pnn.police.uk

CHIEF OFFICER DECLARATION:

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 2017**

CHIEF FINANCE OFFICER DECLARATION:

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 Liz Lunn **Date 27 January 2017**

David Keane
Police & Crime Commissioner for Cheshire

APPENDIX 1

2017/18 REVENUE BUDGET AND COUNCIL TAX

PURPOSE OF THE REPORT

1. The purpose of this report is to enable the Commissioner to finalise the budget for 2017/18 and meet his statutory duty to set a precept. An overview of the statutory requirements regarding budget and precept setting and the interaction with the Police and Crime Panel is attached in Appendix 2.

INTRODUCTION & FINANCIAL BACKGROUND

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 2017-22 and contains a financial scenario which provides an overview of the financial assumptions made in developing each year's projected funding levels and overall financial plan. This is augmented by strategies relating to reserves, value for money and other associated documents which support financial planning and management. The current MTFS was approved by the Commissioner on 4 January 2017.

4. The MTFS recognises the consequences of the 2015 Spending Review, where the previous Chancellor's commitment to 'maintain overall police force budgets at current cash levels' is dependent upon Commissioners increasing their council tax by 2% in each year through to 2020. The previous Home Secretary's letter of 25 November 2015 recognised that the 'total Government funding to policing, including funding for counter terrorism, will be reduced by 1.3% in real terms over four years. Taking into account the scope Commissioners have to raise council tax precept, this means a flat real settlement for policing as a whole.'

5. On 15 December 2017, the Home Office issued the 2017/18 Provisional Grant Settlement. This showed a £1.49m (1.4%) decrease in grant funding compared with 2016/17. This is a slightly higher reduction than the 2015 Spending Review implied as the increase in the 2016/17 taxbase on which Council Tax is calculated, has also been taken into account in the Government's grant allocation.

6. The Government has imposed a 2% limit on the increase in Council Tax for policing and any proposed increase at or above this level will require a local referendum. The cost of a referendum in Cheshire is estimated at £1.2m which would be paid for by the Commissioner from his policing budget. This is the equivalent of approximately 2% increase in the Council Tax and therefore to achieve a net increase in funding, an increase in excess of 4% would be required.

7. For the ten lowest Council Tax charges for policing, the Government will allow a £5 increase rather than the 2% limit mentioned above. This applied to Cheshire in setting the budget for 2016/17 and resulted in Cheshire moving from the 10th lowest to the 11th lowest so this flexibility does not apply for 2017/18 but may apply in future years.

8. The proposed 2017/18 Council Tax increase of 1.99% for Cheshire raises an additional £1.16m, resulting in a net reduction in funding of £0.33m compared to the forecast within the MTFS.

9. The above grant and Council Tax funding does not cover the cost of inflation, any commitments or priority developments etc. These additional costs, together with the net change in funding, will need to be met through efficiencies and savings.

POLICE & CRIME PLAN 2016-21

10. On coming into office the first thing the Commissioner set out to do was to get out and listen to as many people as possible about what is important for local communities. During six weeks of public consultation, the Commissioner received over 2,400 responses as well as having thousands of conversations with residents, community groups and elected community representatives. The results showed a consistent set of public priorities across the four Local Authority areas of Cheshire.

11. As well as listening to the public and partners, the Commissioner also took into account the Chief Constable's assessment of key emerging threats and risks for the Constabulary, Cheshire's community safety needs assessment and the Home Secretary's Strategic Policing Requirement.

12. This has given the Commissioner a clear understanding of the key issues and challenges that policing in Cheshire faces and what is important to communities which have been used to develop his Police & Crime Plan.

13. In the Police & Crime Plan, the Commissioner states his vision for policing in Cheshire based on even safer communities for the next four years 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 neighbourhood policing. The Commissioner set out four main priorities in this plan as follows:

PRIORITY 1 - A police service connected with our communities

- Deliver a visible police service with officers, PCSOs and specialist staff spending more time in our communities
- Work with partners to deliver an accessible police service which is based in the heart of communities
- Engage with residents and communities and reflect their needs in local operational plans
- Provide local communities with a named local officer

- Analyse, understand and respond to local, regional and national threats to ensure safe communities
- Work with partners to engage and support young people on issues relating to policing and crime

PRIORITY 2 - Support victims and protect vulnerable people

- Provide support for all victims of crime to help them cope and recover from their ordeal
- Support services that prevent; protect and support young people from child sexual abuse
- Listen to the needs of victims to help shape services
- Be a voice for victims and work with criminal justice partners to improve the experiences of victims through the court system
- Work together to support victims and protect people from domestic and sexual violence; and hate crime
- Work together to develop a greater understanding and response to modern day slavery and hidden harm and abuse such as female genital mutilation
- Support the continued development of restorative justice
- Work together to provide an effective response to individuals and families with complex needs, including mental health

PRIORITY 3 - Prevent crime and anti-social behaviour

- Improve the safety of our communities
- Prevent and tackle anti-social behaviour
- Tackle drug and alcohol related harm and violence
- Prevent crime and reduce reoffending across Cheshire
- Solve crimes and bring offenders to justice
- Improve the safety of Cheshire's roads through enforcement activity and education
- Promote a safe and vibrant night time economy
- Prevent and protect Cheshire's communities from serious and organised crime
- Work across Cheshire, regionally and nationally to address internet crime and fraud; and emerging threats

PRIORITY 4 - A police service fit for the future

- Challenge the Government to ensure Cheshire has the resources it needs to maintain safe communities
- Invest in technology and equipment that supports officers in our communities
- Invest in an accessible police estate connected with our communities
- Create a more diverse and inclusive police service for Cheshire

- Work with partners to develop new ways of working to support frontline services such as with other Commissioners, the Fire Service and Councils

STRATEGIC POLICING REQUIREMENT

14. Whilst many threats can be tackled by individual police forces within their own force areas, national threats such as terrorism, civil emergencies, serious and organised crime, public order, and a national cyber security incident require a coordinated or aggregated response in which resources are brought together from a number of police forces. Forces often need to work collaboratively, and with other partners, national agencies or national arrangements to ensure such threats are tackled effectively. The Strategic Policing Requirement (SPR) is the outcome of the Home Secretary's statutory duty to set out what are, in her view, the national threats at the time of writing and the appropriate national policing capabilities required to counter those threats.

15. The implementation of the SPR is the responsibility of the Chief Constable and the Commissioner. In reviewing the MTFS and the proposed efficiency savings and investments, the Chief Constable is satisfied that this will enable him to meet the requirements of the SPR; protect the public of Cheshire and achieve the priorities of the Police & Crime Plan.

2017/18 BUDGET PROPOSALS

16. Table 1 shows the proposed revenue budget for 2017/18. The impact of the threats and demands place upon policing; commitments required; proposed savings and the total funding available to the Commissioner has been reflected within the proposals and are detailed in the following sections.

Table 1: Proposed Revenue Budget 2017/18	£000
2016/17 Gross Expenditure Budget	**192,540**
Pay and Price Inflation	2,019
Commitments	2,434
Priority Development Proposals & Growth	2,927
Savings	(5,404)
Transfer to/(from) Reserves	(1,530)
2017/18 Gross Expenditure Budget	**192,986**
Financed by:	
Government Police Grant & Formula Funding	104,763
Council Tax Precept (including surpluses on Collection Fund)	60,147
Net Budget Requirement	**164,910**
Other income and specific grants	28,076
Total Funding and Income	**192,986**

FUNDING

17. For 2017/18 there is a reasonable degree of certainty within to the Provisional Grant Settlement, but there remain some outstanding issues affecting next year such as counter terrorism grant and the Final Grant Settlement which will not be known until after the budget has been agreed by the Commissioner. 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.

INFLATION AND COMMITMENTS

18. Inflation in both pay and price terms is applied to the budget where appropriate. Pay inflation covers the pay award to both officers and staff (currently 1%), and changes to National Insurance. 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	2017/18 £000
Pay inflation	1,003
Price (non-pay) inflation	1,016
Total Inflation	**2,019**

19. Commitments come from two sources, the impact of decisions taken in previous years that have a financial impact for 2017/18; 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 the commitments included within the 2017/18 proposed budget.

Table 3: Commitments	2017/18 £000
Apprentice Levy	685
Fluctuation in pay costs – average pay & bank holiday costs	(352)
Collaborations – increase in contributions	301
Contract increases including Mobile Data	295
LGPS - Actuarial increase	1,449
Borrowing costs increases	56
Total Commitments	**2,434**

20. Within the above Commitments is an increase in the Local Government Pension Scheme (LGPS) employers' contribution due to the impact of the actuarial review in March 2016. This increase is permanent and spans the next three years. As such, it is proposed to use reserves earmarked for such purposes to smooth the increase over the three year period with £1.2m being used in 2017/18.

PRIORITY DEVELOPMENTS AND SAVINGS

21. The demands of policing are changing, not just in Cheshire but across the UK with 21st century policing now requiring a broader range of skills. In addition to standard policing, most officers also carry additional specialist skills. To meet such tasks, specialist units have been created such as

dedicated rape unit, paedophile unit including on-line prevention work, on-line crime including fraud and a cyber unit. Increasingly, officers are being first aiders as well as providing greater support for people with mental health illnesses, as the public now look to the police for support in these broader community based issues.

22. In December 2016, the Commissioner published his Police & Crime Plan. This is the culmination of a development process which has included Cheshire residents every step of the way, from getting the public views on their policing priorities, to giving communities the opportunity to comment on the Plan itself.

23. The proposed investments for the upcoming financial year have been developed to meet the priorities detailed within the Police & Crime Plan 2016-21 and meet the vision for Cheshire to have a police service focused on community policing, putting victims first. The legacy will be a police service connected and accessible to local communities. The following priority developments link to at one or more of the priorities set out in the Police & Crime Plan:

- New and cutting edge technology supporting officers to spend more time within their communities and enhance public contact
- Supporting partners in Local Safeguarding Children and Adult Boards
- Provision of a modern, fit for purpose estate connected with the communities it serves, in partnership with others where appropriate
- Investment in speed awareness education, safety camera staff, increased motorcycle patrols and drug wipes to improve the safety of Cheshire's roads
- Cyber-crime – including data investigation and training both within the Constabulary, via the website and in the community
- Management of sexual and violent offenders including Sex Offender Liaison Officers to protect victims and prevent re-offending
- Continuing funding for Non-Recent Sexual Abuse Team (NSAT) to support victims of such abuse and bring those responsible to justice
- Communications – supporting the Commissioner and Constabulary to give the public a voice in policing in Cheshire
- Modernising the workforce mix and developing skills fit for the future
- Supporting specials and volunteers such as rural watch and many others who provide their free time to support the policing of Cheshire and serve their communities

24. To meet these priority developments and the cost of commitments, savings of £5.4m are proposed. Since 2010 £52.4m savings have been successfully delivered but with each passing year, such savings become increasingly challenging. However, the overall basis of these savings has been to protect the Strategic Policing Requirement including crime prevention.

25. Where there are temporary costs, such as implementation costs for new technology, the use of reserves is proposed in order to protect the

permanent budget and service delivery. For 2017/18, £0.330m of funding is requested from the MTFS reserve in addition to the reserves used for the LGPS increases.

26. The main efficiencies and savings proposed are:

- Estates, including savings on energy costs through better use of buildings and the impact of the photovoltaic panels installed. Investment in buildings allowing year on year savings from leasing costs. On 4 January 2017 the Commissioner approved the principles upon which an Estates Strategy will be developed. This includes the delivery of a modern, fit for purpose estate at the best value for money connected with communities
- Use of new and cutting edge technology, delivering both cash and non-cash efficiencies such as officers spending more time out of police stations and in the community
- Proposed collaborations, including corporate services with Cheshire Fire and Rescue Service delivery same or improved services in a more cost effective way
- Contract savings
- Conferences, supplies and services reductions
- Removal of specific project temporary posts once the project has concluded
- Review of capital funding - temporary reduction to the level of funding from revenue to capital
- Review of essential user and other vehicle allowances across the organisation
- Based on the lower forecast number of new injury and ill health pensions expected in year - reduction in pension contributions
- Increase in vacancy factors to match expected turnover
- Reduction of contingency budgets based on forecast needs in 2017/18

27. Although the above savings meet the overall remit, there is a need for further savings and a small number of staff posts have been identified for removal, subject to collective consultation. At present, the Constabulary has a number of vacancies and it is intended that re-deployment will be used to facilitate the reductions wherever possible.

STAFFING

28. This will provide an establishment of 3444.5 overall, shown in the table below.

Table 5: 2017/18 Establishment (FTEs)

Officers	2003.3
PCSOs	210.0

Staff	1231.2
	3444.5

29. Police Officer establishment is about service deliverability and connection with communities in Cheshire. There is investment in new technology delivering both cash and non-cash efficiencies such as officers spending more time out of police stations and in the community, estimated as half an hour time saving per day per officer. This is estimated to be equivalent to at least 50 officers. The above establishment is deemed to be sustainable for the next few years based on current forecast funding levels.

30. The PCSO establishment will be 210. In October 2016, the Constabulary wrote to all partners seeking their confirmation of funding for 2017/18. The letter highlighted a need to review the current arrangements to ensure sustainable and equitable arrangements across partners are in place going forward. The outcome of the review will be reported during 2017/18.

31. A number of reviews are currently underway including collaborations with Cheshire Fire and Rescue Service which will have an impact on the staffing levels during 2017/18. As each review is finalised and approved, the establishment will be updated accordingly.

COMMISSIONING

32. In 2017/18, 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. The main supporting service for victims across Cheshire is Cheshire CARES and can be accessed by victims of crime whether or not they make a formal complaint to the police. CARES support victims from the outset and throughout any Criminal Justice process.

33. The Commissioner has additional responsibilities to have specialist services available, e.g. to support victims of Rape and Sexual Abuse, Domestic Abuse or Hate Crime as well as to provide a restorative justice service. The cost of Cheshire CARES and other commissioned services are funded through this allocation. The funding allocation for the 2017/18 Victims Grant is £1.2m. The further devolution of services to local commissioning is being explored by the Government.

34. Since 2012/13, the specific community safety funding ceased and was incorporated into the main grant for policing. In Cheshire, this funding has continued to be allocated to support the work of Cheshire's Community Safety Partnerships, substance misuse services and Cheshire's Youth Justice Service. The Commissioner will review the outcomes which are being achieved from this funding in the forthcoming year and will continue to promote greater joint working amongst the four Community Safety Partnerships. The review will inform future commissioning intentions. For 2017/18, the allocated budget is £1.02m.

35. For 2016/17 the Commissioner allocated £60,000 to a Safer Communities Fund, aimed at supporting local and community level initiatives across Cheshire. These awards are capped at £5,000 and need to demonstrate the benefits to the local community through an application process. The fund will be maintained at £60,000 for 2017/18, with an increasing focus on outcomes.

CAPITAL PROGRAMME

36. In addition to the revenue budgets, a programme of capital investment is proposed for 2017/18. This programme links to the 'invest to save' programmes such as new technology and the annual replacement cycle for assets such as vehicles.

37. 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 4: Capital Programme	£000	£000
Prior Years		839
Annual Replacement Schemes:		
Technology Refresh	671	
Fleet Vehicles	2,403	3,074
New Schemes:		
Joint corporate services collaboration with Fire	2,476	
Estates	557	
IT and Communications	2,857	
Equipment	1,090	
Additional Vehicles	359	7,339
Total Capital Programme		**11,252**

38. Full details of the individual schemes within the capital programme are provided in Part 2 of this report. The proposed funding for the above capital investment is set out in the following table.

Table 5: Capital Financing	£000
Government Grants	925
Capital Receipts	2,529
Revenue Contribution to Capital	0
External Contributions to Capital	854
HQ IT Reserve	202
Borrowing Requirement	6,742
Total Capital Financing	**11,252**

ROBUSTNESS OF ESTIMATES

39. 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

40. 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. Details of these reserves are shown in Appendix 4.

41. 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.

CONSULTATION WITH THE PUBLIC AND BUSINESS RATEPAYERS

42. Between 3 and 24 January 2017, Cheshire's communities and businesses were able to give their views on whether funding for Cheshire Constabulary should be maintained at current levels or reduced.

43. Recent years have seen severe cuts to public services. The result locally has been £52.4 million of savings from the police budget over the past 7 years. The current protection of police funding does not take into account inflation and is based on local Police & Crime Commissioners increasing the police share of council tax, known as the policing precept, by 2%. An increase beyond 2% would trigger a referendum.

44. The public and the business community were asked if they were willing to support a 2% or 1% increase in the precept or whether it should be kept at the current level.

45. Maintaining current funding levels through a 2% increase in the precept would not mean local policing stands still. Through careful re-prioritisation and increased efficiency, the people of Cheshire will see investment in areas including:

- supporting victims of sexual abuse
- local policing
- cutting edge technology to support public contact and road safety
- a modern fit for purpose estate ensuring policing in Cheshire is connected with our communities

46. A 1% increase would result in a cut of £0.6 million; this would mean a reduction in policing services and be equivalent to 13 fewer police officers.

47. Freezing the precept at the current level would require greater reductions in policing services through a £1.2 million cut, which is equivalent to 26 fewer police officers.

48. The consultation for the increase of council tax precept 2017 closed on 24 January 2017 with results showing a 42% increase in participation in comparison to 2016 precept consultation. 60% of respondents and 59% of business rate payers supported a 2% increase in the precept. Some respondents also submitted comments which have been taken into account in the budget proposals. Feedback also included that an additional box for further comments would be welcomed and this will be incorporated into next year's consultation.

COUNCIL TAX PRECEPT

49. 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. In line with the current spending review, the level of Government funding for policing has been cash limited dependent on Commissioners raising their Council Tax by up to 2%, and within the budget proposal in this report, the funding includes a 1.99% year on year increase.

50. 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 2016/17, the overall taxbase has increased by 5459.91. The following table shows the proposed level of precepts for each local authority and the individual amount levied per each Council Tax band.

Table 7: Proposed Precepts 2017/18	Number of Band D Equivalents	Precept on Collection Fund £
Cheshire East	144,201.5	23,712,496
Cheshire West & Chester	116,329.0	19,129,141
Halton	33,818.0	5,561,032
Warrington	66,527.0	10,939,700
TOTAL	360,875.5	59,342,369

Band	Proposed 2017/18 £	Actual 2016/17 £	Change per year £	Change per week £p
A	109.63	107.49	2.14	0.04
B	127.90	125.40	2.50	0.05
C	146.17	143.32	2.85	0.05
D	164.44	161.23	3.21	0.06
E	200.98	197.06	3.92	0.08
F	237.52	232.89	4.63	0.09
G	274.07	268.72	5.35	0.10
H	328.88	322.46	6.42	0.12

51. In addition to the above precept, each of the four local authorities hold a council tax collection fund which is a separate fund that records the income and expenditure relating to Council Tax and non-domestic rates. 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 surplus and payable to the Commissioner in 2017/18 amounts to £0.8 m.

LOOKING FORWARD

52. Looking forward there are risks to the overall budgets forecast throughout the Medium Term Financial Strategy (MTFS) 2017-22. At present, the most significant risk to the assumptions used within the MTFS is the way in which the Home Office allocates the police funding to individual forces. This is allocated through a formula which is currently under review. Ministers have indicated their strong desire for a new more open and transparent formula to be in place for the 2018/19 budget. There are many unknowns at this point as to what the new formula will be, how it will allocate funding and the impact it may have upon Cheshire. It is expected that should this be a negative result, i.e. the Commissioner receives less Government funding; there will be a transition period to allow the force to downsize to a sustainable level in line with the revised funding. At present there are no assumptions for this within the MTFS but as soon as any firm indications of the change are known, the MTFS will be updated accordingly.

53. Outside of the formula funding, the impact of Brexit has yet to be felt in full and remains a risk to the overall financial scenario and Government's economic plans. Also included in the Autumn Statement was the reaffirmation of the efficiency savings of £3.5bn expected from all Government departments from 2020. At this moment there are no firm plans or indications on how this is to be delivered and therefore remains a risk to the funding levels beyond 2020.

CONCLUSION

54. The changing demands on policing, the priorities of the Commissioner's Police & Crime Plan and the Strategic Policing Requirement are the driving force throughout the PBB process to ensure the Constabulary can meet its obligations. However, with the funding available being cash limited, the impact of pay and price increases, new burdens such as the Apprentice Levy and the investment in priority areas mean savings must be found to balance the budget.

55. Such savings are increasingly challenging year on year, but the remit to deliver the Strategic Policing Requirement and the service provided to the public remains the key goal. The savings proposed within this budget will deliver overall the same level of service currently provided during 2017/18. The Commissioner and Chief Constable's priorities are to protect local policing services and that the Constabulary pursues all areas of potential efficiency to underpin both performance and required savings going forwards.

APPENDIX 2

BRIEFING: BUDGET AND PRECEPT SETTING TIMETABLE

PURPOSE

1. 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

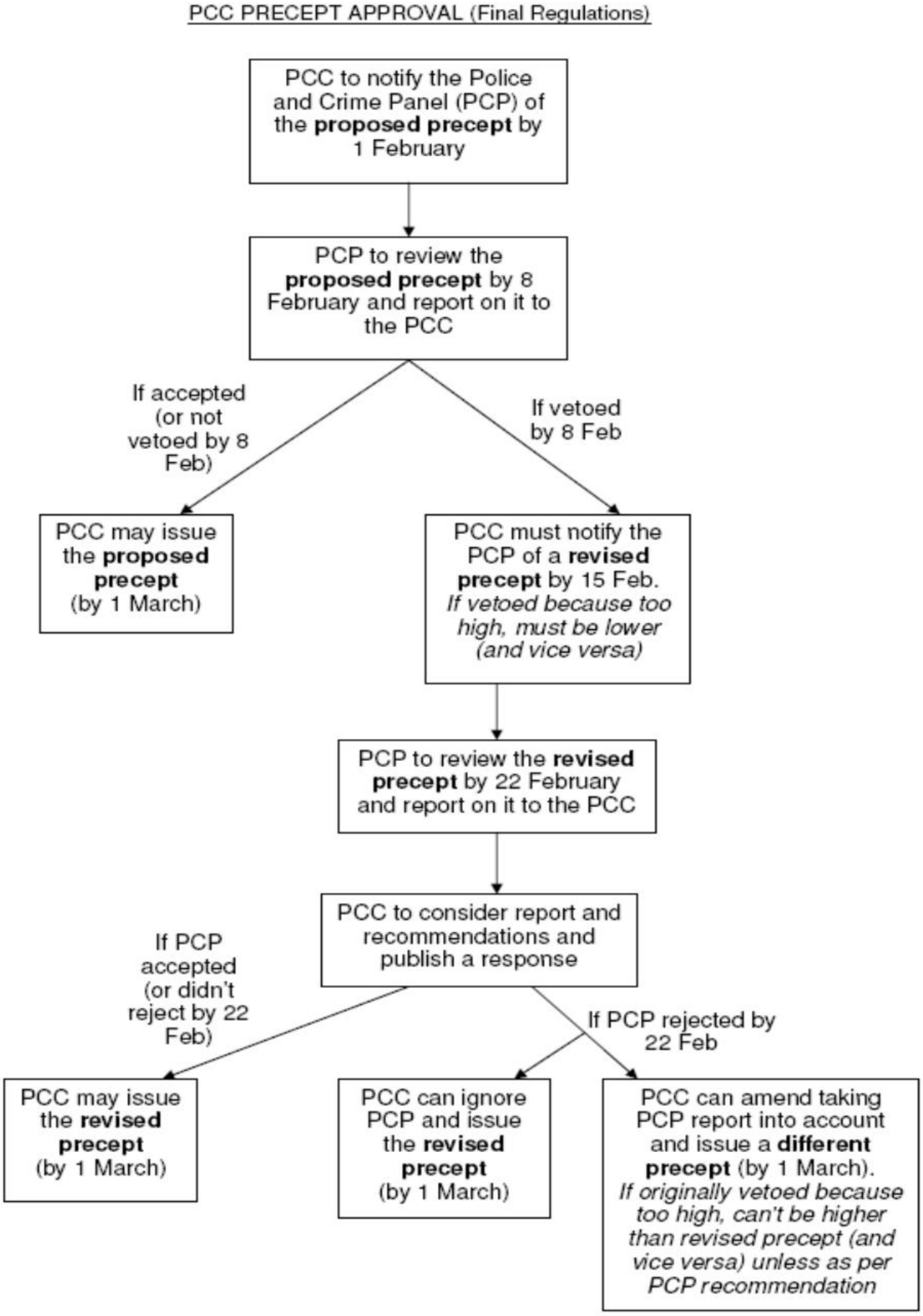
2. The statutory requirements for precepting authorities to set a budget and issue a precept for the next financial year are set out in Chapters 3, 4, and 5 of the Local Government Finance Act 1992. They include significant detail on how budget estimates and the precept must be calculated. The Police 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.

3. 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.

BUDGET AND PRECEPT SETTING TIMETABLE

4. The timetable is set out at Annex B. It comprises briefings, reports and meetings to enable the Commissioner to consider the 2017/18 budget and precept options, undertake budget consultation with the public and business ratepayers, and approve the final budget and capital programme at Management Board on 31 January 2017. It also enables him to issue the precept at the same meeting to the Police and Crime Panel.

ANNEX A



PCC PRECEPT APPROVAL (Final Regulations)
PCC to notify the Police and Crime Panel (PCP) of the **proposed precept** by 1 February
PCP to review the **proposed precept** by 8 February and report on it to the PCC
If accepted (or not vetoed by 8 Feb)
If vetoed by 8 Feb
PCC may issue the **proposed precept** (by 1 March)
PCC must notify the PCP of a **revised precept** by 15 Feb. *If vetoed because too high, must be lower (and vice versa)*
PCP to review the **revised precept** by 22 February and report on it to the PCC
PCC to consider report and recommendations and publish a response
If PCP accepted (or didn't reject by 22 Feb)
If PCP rejected by 22 Feb
PCC may issue the **revised precept** (by 1 March)
PCC can ignore PCP and issue the **revised precept** (by 1 March)
PCC can amend taking PCP report into account and issue a **different precept** (by 1 March). *If originally vetoed because too high, can't be higher than revised precept (and vice versa) unless as per PCP recommendation*

ANNEX B

BUDGET TIMETABLE 2017/18

Date	Activity
31 October 2016	Public Consultation on 2016-21 Police and Crime Plan closes
1 November 2016	*Budget Briefing Session: PBB process and confirm budget timetable.*
8 November 2016	*Budget Briefing Session: emerging findings from PBB and latest financial assumptions, MFSS Fusion upgrade and proposals on future Estate*
18 November 2016	Police and Crime Panel consider draft Plan
23 November 2016	2016 Autumn Statement and CFO to circulate briefing note
Early December 2016	2016-21 Police and Crime Plan published
6 December 2016 – 9 - 10 am	*PBB- Emerging findings and discussion of JSDG agenda*
10.30am, 15 December 2016	Written ministerial statement on Provisional 2017/18 Grant Settlement
15 December 2016	*JSDG considers Grant Settlement, revised MTFS for 2017-22, PBB outcomes and 2017/18 budget options*
22 December 2016	*Budget Briefing Session*
4- 24 January 2017	Budget consultation with the public and ratepayers
4 January 2017	Updated 2017-22 MTFS approved by Management Board
10 January 2017	*Draft 17/18 budget report considered with the Commissioner*
January 2017	Borough Councils confirm taxbase and collection fund deficit/surpluses
17 January 2017	*Final 17/18 budget report considered with the Commissioner and briefing for PCP meeting*
10.00 am 19 January 2017	Informal Police and Crime Panel meeting to consider emerging budget/precept considerations
24 January 2017	Management Board agenda closes
31 January 2017	Commissioner proposes 2017/18 budget, capital programme and precept at Management Board
3 February 2017	Police and Crime Panel consider precept
Early February 2017	Final 2017/18 Grant Settlement

APPENDIX 3

ROBUSTNESS OF ESTIMATES

1. 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.

2. The Commissioner has a policy and expenditure planning process which takes account of the service scenario and financial scenario in some detail for 2017-22. Alongside this, future capital programmes have been produced taking into account forecast Government funding, borrowing limits and council tax. For 2017/18 borrowing levels have also been guided by the prudential indicators for 2017-20.

3. For 2017/18, 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 prior years' and the 2017/18 capital programme.

4. 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

5. 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 2017/18 £2m has been provided for pay and price increases.

6. 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 including:

    - Seeking wherever possible to explore in full the implications and achievability of policy and expenditure options <u>before</u> 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 contingencies.

7. 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.

APPENDIX 4

RESERVES

1. In addition to the requirements covering the robustness of estimates, Section 25 of the Local Government Act 2003 also requires the Chief Finance Officers 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. As part of the Medium Term Financial Strategy, a Reserves Strategy was approved by the Commissioner and the Chief Constable on 4 January 2017. This set out the reserves held, their intended usage and the strategy for ensuring the funds are maintained at an appropriate level.

3. The following table shows the estimated reserve levels at the start and end of 2017/18, based on the proposed capital programme and expected usage of earmarked reserves.

Table 8: Reserves	Estimated 1 Apr 17 £000	Net Movement £000	Estimated 31 Mar 18 £000
Redundancy Reserve	482	0	482
MTFS Reserve	1,103	(330)	773
LGPS Reserve	1,800	(1,200)	600
Total Revenue Earmarked Reserves	3,385	(1,530)	1,855
Capital Receipts	1,315	(1,315)	0
Capital Reserve	85	0	85
IT Reimbursement Reserve	0	0	0
Unapplied Capital Grants Reserve	437	300	737
Total Capital Earmarked Reserves	1,837	(1,015)	822
General Reserve	5,773	0	5,773
Total Reserves	10,995	(2,545)	8,450

4. The opening balances shown in the table are based on the three-quarter year review of revenue and capital budgets. The final figures will be known once the accounts have been verified by External Audit as part of the Statement of Accounts – published July 2017.

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

Redundancy Reserve £0.5m
It is recognised that the cost of reforms, efficiencies and restructuring will require changes to staffing levels. This reserve is held to meet any associated redundancy costs.

Medium Term Financial Strategy (MTFS) Reserve £0.8m
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.

Local Government Pension Scheme (LGPS) Reserves £0.6m
Every three years the Actuary for the LGPS reviews the level of contributions made to the scheme against the forecast liabilities with any shortfall in funding resulting in increased employer’s contributions. The LGPS was reviewed on 31 March 2016 and increased contributions are required over the next three years. To smooth the transition to the higher contribution rates, funds have been set aside within this reserve for the next two years.

Capital Receipts £nil
Capital Receipts represents the net proceeds from the sale of assets. The use of this funding is limited by regulation to re-investment in the purchase of new assets or the repayment of debt. The forecast net movement represents capital financing of the 2017/18 proposed capital programme.

Revenue Reserve for Capital £0.1m
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 into this reserve each year and used to finance that year’s capital programme.

HQ IT Reserve £nil
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 schemes requirement and applied to finance relevant capital.

Unapplied Capital Grants Reserve £0.7m
This reserve contains the capital granted 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 expenditure is made – for example on the new Emergency Services Network.

General Reserves £5.8m
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 the organisation the amount held in this reserve is deemed both prudent and adequate.