



**Police & Crime Commissioner for Cleveland**  
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### **PCC Scrutiny, Delivery & Performance Meeting**

**Date:** 20 February 2019  
**Time:** 1000-1300  
**Venue:** Endeavour Room, Community Safety Hub

#### **Agenda**

		<b>Presented by</b>
1.	Apologies For Absence	
2.	Declaration of conflict of interest/disclosable pecuniary interest	
3.	Notes of the previous meeting  i) 16 January 2019	
4.	a) Cleveland Police – Corporate Financial Monitoring Report to 31st December 2019  b) PCC Budget Monitoring Report to 31st December 2018  c) Robustness of Estimates and Adequacy of Financial Reserves – Report of PCC CFO  d) PCCs Long Term Financial Plan (LTFP) 2019/20 to 2022/3 and Capital Plans 2019/20 to 2022/23  e) Cleveland Police Long Term Financial Plan (LTFP) 2019/20 to 2022/23  f) Capital Strategy 2019/20  g) Treasury Management and Prudential Indicators Report 2019/20-2022/23	Chief Finance Officer OPCC and Chief Finance Officer Cleveland Police

	h) Minimum Revenue Provision 2019/20	
5.	Audit and Inspection Updates – National Child Protection Post Inspection Review	Cleveland Police
6.	Any Other Business	
7.	Date of next meeting – 28 March 2019	



## **Scrutiny, Delivery & Performance Meeting**

16 January 2019

1000-1300

Endeavour Room, Cleveland Community Safety Hub

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### **Present**

Barry Coppinger - Police and Crime Commissioner

Jason Harwin – Assistant Chief Constable, Cleveland Police

Judith Nellist – Commissioner’s Officer for Policy and Scrutiny, OPCC

Elise Pout, Standards and Scrutiny Manager, OPCC

Maria Hopper – Head of Information Management, Cleveland Police

Phil Brooke – Information Security Manager, Cleveland Police

Oliver Plumpton – Head of ICT, Cleveland Police

Natalie Wing – Crime Scene Operations Manager, Cleveland Police

### **Apologies for absence**

1. Apologies for absence were received from Helen McMillan – Temporary Deputy Chief Constable, Cleveland Police, Simon Dennis - Chief Executive and Monitoring Officer, OPCC and Jo Hodgkinson – Assistant Chief Executive, OPCC

### **Declarations of Conflict of Interest/Disclosable Pecuniary Interest.**

2. None declared.

### **Notes of the Previous Meeting**

3. The notes of the following meeting were approved for publication.
  - i. 29 October 2018
  - ii. 30 November 2018
  - iii. 11 December 2018

### **Information Management Update**

4. The PCC sought an update on the recent correspondence relating to all reported and referred data breaches to include:
  - i. A verbal update on all reported/referred data breaches.
  - ii. The timescales for the recommendations coming from the ICO regarding recent data breaches and the tracking method to ensure completion.
  - iii. An assessment of the risks in overall terms and how they were being planned for and responded to.
5. Maria Hopper attended to update the PCC on all of the recent security breaches. It was noted that for those that had been investigated by the ICO no fines had been received and a number of recommendations had been made. For example security of access doors into areas where sensitive operations were taking place.

6. The proactive introduction of an electronic process for the issue and use of day books: including officers and staff applying for a book; books that are logged electronically and identified via a serial number; and removable pages for scanning had ensured that no fine or recommendations for improvement had been received from the ICO for the incident in Hartlepool involving the blue book.
7. With regard to other breaches, they were found to be accidental incidents and no systematic failure was found within the force. The Force was working with Sopra Steria on the internal mail process to prevent any data breaches.
8. Maria discussed the principles that, if breached, would attract a fine: including the fair and lawful processing and the protection of people's personal data.
9. A tendering process was underway to provide officers with electronic solutions to using paper based recording systems.
10. The PCC highlighted that he had seen an increased awareness within the force regarding data protection and information management along with a complete change of practice in working attitudes with people being acutely aware of the implications. Learning from the recent data breaches had provided an opportunity for the Force to consider and review their working practices and remind people how important information handling was.

**Action** – that the information was noted.

### **Police Digitisation**

11. In response to a HMICFRS Efficiency Recommendation regarding Police Digitisation – new national Exemplar Plan was written on behalf of the NPCC and the Information Management and Operational Requirements Coordinating Committee (IMORCC). That was in response to the recommendation of the HMICFRS PEEL Efficiency Review 2017 that,
 

*“By September 2018, chief constables should produce an ambitious plan to improve digitally enabled services within their force. The Home Office, National Police Chiefs’ Council and Association of Police and Crime Commissioners should support the development of these plans by establishing a national framework which allows for the provision of digitally enabled services across force boundaries.”*
12. It was expected by HMICFRS that local forces' plans should be completed by 20th September and it was likely that compliance with the recommendation would be reviewed by HMICFRS in future inspections.
13. The PCC sought information to ensure that the local plan was aligned to the Police and Crime Plan and in doing so sought the following information from the Force:
  - i. a briefing from the Chief Constable and/or Chief Technology Officer about the approach to producing the local plan (for digitisation) and how the force will comply with the HMICFRS recommendation;
  - ii. assurance that the local approach to digitisation would meet the urgent demands on both local and national Policing;
  - iii. Assurance that the local plan was fully costed within a realistic resources context and that it was aligned with the Budget and Medium-Term Financial Strategy for the force? And
  - iv. On the release of the expected National Identity Access Management capability in April next year, alongside the National Management centre, forces would be able to embrace the

cloud, reducing costs and importantly sharing new capabilities built on this national standard. Does this feature in the local plan? what commitment in the local plan was there to using cloud technology as proposed in the Government Cloud First strategy.

14. The Head of ICT Oliver Plumpton attended the meeting to update the PCC and noted that Cleveland Police have developed a policing strategy in line with the P&CP and the police digitisation strategy. The strategy was reflective of the more digital aspect of society. In producing the strategy it was noted that in responding to the challenge it had set an ambitious work programme over the next 3 years which covered all aspects of the organisation. The programme required adequate resourcing and a submission had been presented to the PCC and discussions were on-going.
15. The PCC asked if the strategy was to be implemented within the timescale. It was noted that it was difficult to say for certain and at this stage. However the strategy had received good national feedback and that some of the priorities within the scheme would be nationally led and some had a natural prioritisation. There were operational benefits of early progression however the day to day business needed to be addressed first, including prioritising the allocation of resources within that investment.
16. The strategy covered the period of 2018 to 2025 and was very much a high level strategy with subsequent work to take place to develop an outline of the priorities and then a work programme. It was designed to ensure that the Force made the right investments to carry it forward, ensure that it was future proofed and contained less tactically focussed and more innovative initiatives.

**Action** – that the information was noted and that a copy of the strategy would be sent to the PCC.

### **Victims Right of Review**

17. The Victims' Right to Review (VRR) scheme gave victims the right to request a review of a Police decision not to prosecute a suspect. The right of a victim to request a review arose where the police:
  - i. Make a decision not to bring proceedings in cases where the police have authority to charge; or
  - ii. Make a decision that the case does not meet the Threshold Test for referral to the CPS for a charging decision.
18. The PCC sought information on:
  - i. Details about how Police VRR works in reality, what numbers have been dealt with in Cleveland and what have the outcomes been? And
  - ii. Was it being publicised and utilised to its best effect?
19. It was noted that the information on the scheme was now contained on the Force and OPCC website. The scheme itself was owned by the Director of the Department of Standards and Ethics (DSE) and managed within her team.
20. If the criteria for a review was met it was forwarded to the crime registrar for action. The Assistant Chief Constable (ACC) gave information about the nature of the cases that had brought about a VRR. In 2018 13 VRR had been requested of which 3 required additional work and were sent to the CPS.

**Action** – To receive on going information about the implementation of the project and that the OPCC ensure that the Complaints Service Team were aware of the scheme and could advise people accordingly.

### **Police Response and Prioritisation**

21. Police Response and Prioritisation complaints are coming to the attention of the PCC regarding the general issue of police response times and prioritisation.
22. The Complaints Service Team had received an increasing number of complaints which relate to this issue. One such example was received recently. *On the morning of Tuesday the 18 September around 4 am the complainant's car was broken into outside of his daughters flat in Yarm. A wallet was stolen from the vehicle and the debit and credit cards were used to carry out a number of contactless purchases in the Yarm area. His daughter's partner was alerted to this by text as each transaction took place. The break in was discovered at 7.30am and he called the police who said they would contact him within 48 hours to send someone out. This concerned his daughter and her partner that the trail would 'go cold' and the perpetrators go un-apprehended. There were a number of transactions that took place at a particular service station so the complainant visited there to see what information he could ascertain; on visiting the service station he found that the manager had been suspicious of the transactions, who he said were made by regulars at the station. They sought the CCTV but were told that it was only available for use by, and on the request of, the Police. After a number of calls to 101 they were informed that no one was available to visit the service station for another 7 days. The Complaints Service Team contacted the Force to seek an update, however in subsequent correspondence in the intervening period the CCTV had had been deleted and was no longer available.*
23. The PCC sought information on the following:
  - i. An update on control room stabilisation project.
  - ii. Recent performance figures for 101/999.
24. The Assistant Chief Constable gave an update on the Control Room Stabilisation project. It had been recognised that the pace of demand had rapidly outstripped resources and risk had become more difficult to identify. In order to deal with that, the use of diary appointments was stopped and incidents were given to officers to action. That process had received a positive response from officers and enabled the force to manage demand differently, putting more officers into ICMT. There were 5 phases to the plan and it had included triage at switchboard and additional training for staff to identify different issues. Extra staff had also been brought in to manage demand. That had seen positive results with items not getting through to control room if they didn't need to.
25. Net Call had been introduced which enabled internal callers to call staff without going through the switchboard first and this was to go live with for public use later in January. That would reduce the number of calls to 101. A detailed breakdown for 101 and 999 about the respective call volumes, service levels, abandon rates, average waits and longest waits was given to the PCC at the meeting for his information.
26. In order to boost confidence, call takers had been given training on 'resource without deployment' identifying risk through the THRIVE process. That had resulted in the right type of calls being addressed and a reduction in demand within the control room.
27. It was noted that the top performing control rooms across the country had about a 50/50 split with demand that was dealt with within ICMT and the deployment of officers. In order to achieve this, work was taking place as part of the Force restructure to plan for a further increase in staff numbers.
28. The message that was to be reiterated to the public was that crime would be investigated if there were lines of enquiry.

**Action** – that the information was noted.

### **Randox Update**

29. The PCC had received regular updates from the Force on the implications of the manipulation of drug tests undertaken by the Randox company. The PCC sought information on the following:
  - i. further detailed information on the national position and then more specifically the implications of that position for the Force and how those implications were being managed.
30. Natalie Wing attended the meeting to update the PCC, in doing so it was noted that all the cases that had been marked for retesting were prioritised as per the advice from the national group that had been set up to address the issue. All cases had been considered and assigned a priority based on cases that were live and were going to trial, pre charge advice, finalised cases with sanctions to those low priority cases that were marked for no further action.
31. One of the key issues to be taken into account which would affect the timeliness of the retesting was the current instability within the forensics market and the lack of scientific resources nationally to undertake the work.
32. The PCC was apprised of the number of outstanding cases in Cleveland. There were 66 cases where the results were still awaited and cases where there had been no further action were withdrawn from the project. The majority of cases were road traffic related and there had been a minimal number of serious cases, however there were generally cases where the toxicology reports were not of significant relevance and would be removed from the retesting programme.
33. In terms of the financial implications, there could be additional charges that forces were asked to pick up, those costs were being checked by the Force but it was expected that they would be minimal.
34. There were 4 providers carrying out the retesting and it was hoped that they would be concluded by April 2019.

**Action** – that the information was noted.

### **Appropriate Authorities Update**

35. The PCC received the quarterly update on the OPCC/DSE Appropriate Authorities Liaison Meeting. The Chief Executive of the OPCC has general delegation of respective Appropriate Authority matters and as such regular meetings take place with the Chief Executive, the Head of the Directorate of Standards and Ethics, the Head of Legal Services and the OPCC's Standards and Scrutiny Manager in order to discharge the Terms of Reference. The meetings take place to discuss matters of common interest and as a forum for the Force to notify the OPCC (and vice versa) of any conduct matters arising from litigation in accordance with the Schedule 3 of the Police Reform Act 2002 and the Police (Complaints and Misconduct) Regulations 2012
36. Since the last update to the PCC, meetings have continued to take place on a monthly basis. The minutes of the meetings will be provided to the PCC for noting. As part of the above process and in discussions with the Force and the OPCC it was proposed that the IPT Legal Services Review be adjourned.

**Action** - That the minutes of the meetings are noted by the PCC and that that the IPT legal services handling review be adjourned.

## PCC Scrutiny Questions

37. **Community Speedwatch** – The PCC asked the Force for a brief overview of the structures and processes in place to support the Community Speedwatch. It was noted that the PCC had visited a speedwatch site and witnessed the noticeable positive effect on the traffic.
38. **Approach to tackle retail crime** – The PCC asked the force to provide an update on the proposed new initiatives to tackle retail crime. It was noted that the new volunteer specials would take a role in the work.
39. It was noted that the volume crime took place with the international brand shops. In order to tackle that high demand in terms of the day to day business, a new system was to be introduced which would enable those stores to report retail crime on line, they would be able to fill in a statement based on a template for which training had been given, they would also be able to upload any CCTV images. The PCC was supportive of the approach.
40. The project 'go live' date was imminent, the PCC asked the Assistant Chief Constable to liaise with partners to ensure that all the consultation information was available and to provide extra assurance for retailers.

**Action** – it was agreed that the Assistant Chief Constable would liaise with partners to ensure all the consultation information was available and that the 'go live' date was achievable in the light of any such new information.

41. **PCC funded posts** – The PCC asked for clarification on the PCC funded posts. It was noted that the issue of timeliness to recruit has been resolved. The rest of the posts would be discussed within the Citizen Focus and the wider restructure.

### Any other business

42. Any other business –

i) The PCC brought the Home Affairs Select Committee (HASC) enquiry into 'The Macpherson Report: Twenty Years On' to the attention of the ACC. The Committee were seeking information from PCCs and forces about how the police service had performed against the recommendations contained within the report.

**Action** – It was agreed that the information be sent to the ACC and then following discussions with the OPCC a joint meeting could be held to discuss the response.

ii) The PCC brought up the issue of traffic management in Guisborough, it was noted that work was on going with police and partners and talks were taking place with the NAP and the local Councillor to discuss solutions.

43. Date of Next Meeting – 20 February 2019



## Report of the Chief Finance Officer to the Chief Constable

14th Jan 2019



# CLEVELAND POLICE

### Corporate Financial Monitoring Report to 31<sup>st</sup> December 2018

#### Introduction

1. This report provides assurance that the revenue and capital plans for 2018/19 are being delivered, that financial risks to the plan are being monitored and managed, and that remedial action is being taken where necessary.

#### Summary Headlines

The tables below set out the forecast outturn position as at 31<sup>st</sup> December 2018. The forecast incorporates the impact of actions agreed to deliver financial targets.

#### **Budget Monitoring Summaries to 31<sup>st</sup> December 2018**

The year-end forecast is for a breakeven position, unchanged from Period 8.

<b>Revenue</b>	<b>Annual Budget</b>	<b>Forecast Outturn</b>		<b>Previous Forecast</b>	<b>Change</b>
	£000s	£000s	%	£000s	£000s
<b>Pay Budgets</b>					
Police	67,086	(400)	(0.6%)	(430)	30
PCSO	4,295	(200)	(4.7%)	(200)	0
Staff	10,972	20	0.2%	20	0
<b>Total Pay &amp; Allowances</b>	<b>82,353</b>	<b>(580)</b>	<b>(0.7%)</b>	<b>(610)</b>	<b>30</b>
<b>Total Non-Pay Budgets</b>	<b>39,599</b>	<b>580</b>	<b>1.5%</b>	<b>610</b>	<b>(30)</b>
<b>Total Expenditure</b>	<b>121,952</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0</b>

The underspend on Police pay and allowances of (£400k) comprises an underspend of (£780k) on Police pay due to an increase in the number of retirements than was originally forecasted, the movement of Officers between core policing and collaborated units and a change in the recruitment profile. This has been offset by a forecasted £380k overspend on police overtime (a £30k increase from period 8), relating to the charges for non-CNYMIT officers working overtime on the Major Incidents £295k, £40k for the additional costs of policing during the Football World cup, £15k for ICMT overtime stabilisation actions, £20k additional pressures within Professional Standards and £10k within Custody. The underspend on PCSO pay and allowances of (£200k) is due to the leavers not being replaced until later in the year. Staff pay and allowances is forecasted for a £20k overspend due in the main to additional costs identified for the recruitment of PSI's within the Major Incident and Organised Crime teams of £125k and overtime pressures in Legal and Professional Standards of £20k, offsetting the savings created through delays in staff recruitment (£125k).

The forecast overspend on Non-Pay budgets is £580k a reduction of £30K from period 8. The main overspendings comprise of an increase in pension costs of £235k, an increase in the workload of Forensics of £100k and charges to contingency in relation to uniform and boots of £185k.

## Capital Monitoring Statement to 31st December 2018

Capital	Annual Budget	Forecast Outturn		Previous Forecast	Change
	£000s	£000s	%	£000s	£000s
Estates Schemes	3,351	13	0.4%	13	0
Equipment Replacement	311	(2)	0.0%	(2)	0
ICT Schemes	1,866	(26)	(1.4%)	(16)	(10)
Fleet Replacement	700	0	0.0%	0	0
Provision for Business Cases	0	0	0.0%	0	0
<b>Total Capital</b>	<b>6,228</b>	<b>(15)</b>	<b>(0.2%)</b>	<b>(5)</b>	<b>(10)</b>

The 2018/19 capital budget has been reduced by £333k in December following the changes to several schemes as outlined in Appendix 4. The capital programme has been reviewed and a further £333k across five schemes is not required in 2018/19. Two schemes (LOCARD Replacement and Control Room Solution Improvements) with a total budget of £150k have been returned as no longer required. Three other schemes (Billingham Station Rewire, Investigate Analytical Software and ACESO replacement) with a total budget of £183k have been delayed this financial year and are deferred to 2019/20.

As can be seen from the table above, the forecast for capital expenditure is for an underspend of (£15k) a change of £10k from Period 8. The £13k overspend for Estates schemes relates to the additional specialised requirements requested at Thornaby Fire Station. The (£2k) underspend for equipment replacement relates to the purchase of the X-Ray Machine. The (£26k) underspend in ICT relates to savings on the Web Based Mapping (£5k), Automated PDR (£5k), ICCS project (£20k) and National ICT Enablement (£50k) offsetting the £45k overspend on the Backup Infrastructure scheme, £5k overspend on the DSE audit equipment and £4k overspend on CoreVet.

### Revenue Budget

On 28<sup>th</sup> February 2018, the PCC allocated the Force a revenue budget of £119,770k for 2018/19. Changes to the budget are set out at Appendix 1 resulting in a revised budget of £121,952k. A detailed analysis of expenditure for the year is given at Appendix 2.

### Key Risks

The key risks to the delivery of a balanced revenue budget were set out in the LTFP and are restated at Appendix 3. These risks will be monitored at least monthly throughout the year. The major risks are:

- The Chief Constable of Cleveland currently has 93 claims lodged against him with the Central London Employment Tribunal in respect of the challenge to the Police Pension Scheme 2015. The claims are in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Police Pension Regulations 2015. The Court of Appeal ruled in December 2018 that the Government's changes to pensions with regard to judges and firefighters were discriminatory on the grounds of age. These cases were brought due to changes to public sector pensions in 2015, which also affected other public sector schemes including the police pension scheme. This ruling could have significant implications however costs and funding implications are as yet unknown.
- The unprecedented number of major incidents that have occurred within Cleveland during the first 9 months of 2018/19 resulting in officers being redirected from their substantive roles.
- The number and cost of historic case reviews in any one year is unpredictable.
- The Force is robustly defending a mixture of Employment Tribunals and general litigation claims. The outcome of which is unknown currently. The Force in conjunction with the OPCC has allocated a level

of resources to help mitigate the financial risk associated with these claims. However the cost of any settlement can vary significantly and as such this presents a significant financial challenge to the Force.

- The Force is the subject of on-going investigations in relation to four Data breaches. The financial penalties for these breaches have not yet been determined and are not included in this forecast, but are still a financial risk to the force.

### Police Pay & Allowances

The forecast year-end position against the total police pay and allowances budget is an underspend of (£400k) which is a decrease of £30k on the underspend from Period 8. The change from periods 8 to 9 are due to £30k of additional overtime pressure relating to the major incidents and custody.

The year-end forecast is for an overspend of £380k against police overtime, due to non-CNYMIT officers working on Major Incidents £295k, overtime incurred due to the World Cup £40k and other overtime pressure within ICMT, Professional Standards and custody.

The current variance against Police Officer overtime is £557k overspend, split between collaborations £143k and Core £414k, of which £38k relates to Mutual Aid costs yet to be invoiced, £71k to the HIU which will be covered by Special Grant, £237K relating to major incident work, £40k for World Cup, £20k for Domestic Abuse Support car and £8k for General Overtime.

### Police Pay breakdown

Description	Full Year Amount £000s	Change from periods 8 to 9 £000s
Changes in Retirement Profile	-170	0
Officers move from Core to Collaboration	-465	0
Resignations	-245	0
Back Fill DCC	70	0
Medical	-60	0
Other Changes	90	0
Police overtime - Major Incidents	295	20
Police overtime - World Cup	40	0
Other Overtime Pressure	45	10
<b>Total</b>	<b>-400</b>	<b>30</b>

The budget was set on the basis of having an average of 1,230 FTE police officers throughout the year with a changing number each month in accordance with the leaver and recruitment profiles. Further funding has been confirmed from the PCC for an additional 6 posts to bring the total budget to 1236 FTE. The budget split including the PCC funded posts is 1042 FTE in Core Policing, 147 in collaborations, 40 in Home Office Special Grant Funded posts and 7 on secondment. As at the 31<sup>st</sup> December the total number of officers in post is 1,210 FTE with 1012 FTE in Core Policing, 143 FTE in collaborations, 46 FTE in Home Office Special Grant Funded posts and 9 on secondments.

<b>Core Police Officer Attrition</b>	<b>As At 31/12/18</b>	<b>Forecast to March</b>	<b>As At 31/03/19 Total</b>	<b>To 31/03/19 LTFP</b>	<b>Variance to LTFP</b>
FTE at 1st April	1111		1111	1087	24
Retirements	-45	-8	-53	-45	-8
Medical Retirements	-6	0	-6	-8	2
Other Leavers	-15	-2	-17	-12	-5
Move to HIU	-46	0	-46	0	-46
Other changes	-9	0	-9	0	-9
Recruitment	22	20	42	20	22
<b>Total</b>	<b>1012</b>	<b>10</b>	<b>1022</b>	<b>1042</b>	<b>-20</b>

### Police Community Support Officers Pay & Allowances

The forecast year-end position against the total PCSO pay and allowances budget is for an underspend of (£200k). This is unchanged from Period 8's report.

The budget was set on the basis of having an average of 132 FTE PCSOs (plus an additional 15 FTE funded by the PCC) throughout the year with a changing number each month in accordance with the leaver and recruitment profiles. The actual number of PCSOs in post as at 31<sup>st</sup> December was 131 FTE, with 117 in core posts and 14 in the OPCC funded posts.

<b>PCSO Attrition</b>	<b>As At 31/12/18</b>	<b>Forecast to March</b>	<b>As At 31/03/19 Total</b>	<b>01/04/18 to 31/03/19 LTFP</b>	<b>Variance to LTFP</b>
FTE at 1st April	139		139	135	4
Leavers	-8	0	-8	0	-8
Other changes	-2	0	-2	0	-2
Recruitment	2	14	16	12	4
<b>Total</b>	<b>131</b>	<b>14</b>	<b>145</b>	<b>147</b>	<b>-2</b>

### Police Staff

The forecast year-end position against the total police staff pay and allowances budget is for a £20k overspend, unchanged from period 8. There is a pressure created from PSI's within Major Incident and Organised Crime Teams with a forecasted cost of £125k offsetting the savings identified from the delays on the recruitment of staff. The overtime pressure of £20k relates to costs identified in Legal & Professional Standards.

The staff pay budget was set based on having 318 FTE police staff in post at the 1<sup>st</sup> April. The budgeted FTE split was 257 FTE in core policing, 30 FTE in collaborations, 22 FTE funded by the PCC for the enhancement of Neighbourhood Policing and 9 FTE in other funded roles. As at the 31<sup>st</sup> December actual FTE in post were 319, with 252 FTE in core staff posts, 27 FTE in collaborations, 17 FTE in HIU, 18 FTE in the PCC funded Neighbourhood roles and 5 in other posts that the PCC is funding.

The recruitment for the other vacant posts identified in the 2018/19 budget and additional posts that were agreed at the Towards 2020 board as part of workforce modernisation are underway with forecasted start dates throughout 2018/19.

## Non-Pay Budgets

The forecast year-end position against the non-pay budget is an overall overspending of £580k, a decrease of £30k from Period 8. The overall overspending is summarised as;

### Non-Pay Summary

Description	Full Year Amount £000s	Change from periods 8 to 9 £000s
Steria Charges	(100)	(85)
Premises	25	0
Custody	(10)	0
Other Police Pension Costs	235	20
Transport	20	0
External Support	(40)	0
National IT Charges	(10)	0
Change and Contingency	245	(5)
Communications	60	30
Forensics	100	0
Maintenance Agreements	(10)	(20)
Computing	15	30
Surgeons & Medical Costs	20	0
Professional Fees	10	0
Other Equipment & Furniture	60	10
Agency Staff	10	0
Other	(50)	(10)
Total	580	(30)

The major variances are set out below:

#### Sopra Steria – (£100k) underspend

The forecasted year-end position is for an underspend of (£100k) (a £85k increase on the underspend from period 8). £110k of savings identified from the Steria contract has been used to achieve this year's non-pay savings and as such has been removed from the budget to offset the savings budget. The change from period 8's forecast is due to the revised monthly charge being lower than originally forecasted due to a lower inflation rate than budgeted.

#### Premises - £25k overspend

The forecasted year-end position for premises is for an overspend of £25k (unchanged from period 8) due to pressures identified with the cleaning contract.

#### Custody – (£10k) underspend

The forecasted year-end position for custody is for an underspend of (£10k) (unchanged from period 8) due to small change in the baseline contract for Provision of Medical Services.

#### Other Police Pension Costs - £235k overspend

The forecasted year-end position is for an overspend of £235k (a £20k increase from period 8) due to backdated Injury on Duty pension claims, a 3% increase linked to the average CPI increase on the monthly pension payments, an increase on the forecasted number of in-year retirements resulting in higher amounts of sanction charges and higher capital equivalent payments linked to the medical retirements.

#### Transport – £20k overspend

The forecasted year-end position is for an overspend of £20k (unchanged from period 8) due to additional costs identified against Car Allowances and General Travel.

#### External Support – (£40k) underspend

The forecasted year-end position for External Support is for an underspend of (£40k) (unchanged from period 8). The £40k underspend relates to a (£100k) savings on Uraly Nook offset with a £50k pressure from CDSOU and £10k for the North East Fingerprint Bureau.

#### National IT Charges – (£10k) underspend

The forecasted year-end position for National IT charges is for an underspend of (£10k) (unchanged from period 8), as a result of the Home Office decision not to charge for the ACRO & International Criminal Conviction Exchange (ICCE) in this financial year, offsetting an increase in NABIS charges including the uplift in funding for the implementation of the NABIS 2020/21 proposal.

#### Change and Contingency - £245k overspend

The forecasted year end position for the change and contingency is for an overspend of £250k (a £5k decrease from period 8) mainly relating to the purchase of new uniforms and boots for operational staff.

#### Communications - £60k overspend

The forecasted year-end position for Communications is for an overspend of £60k (a £30k increase from period 8) due to an increase in the landline phone charges in addition to the mobile phone charges during the transition between the mobile phone suppliers.

#### Forensics - £100k overspend

The forecasted year-end position for Forensics is for an overspend of £100k (Unchanged from period 8) due to an increase in casework fees. The fee increase is as a result of higher levels of usage and an increase in the contract price.

#### Maintenance agreements - £10k underspend

The forecasted year-end position for Maintenance agreements is for £10k underspend (a £20k decrease from period 8) due to savings identified within the maintenance agreement for the ICCS system offsetting the increased costs relating to the Textburst system.

#### Computing – £15k overspend

The forecasted year-end position for Computing is for an overspend of £15k (an increase of £30k from period 8) due to line installations costs at the CSH for the cloud solution offsetting savings identified against IL4 Confidential Network.

#### Surgeons & Medical Costs - £20k overspend

The forecasted year-end position for Surgeon & Medical Costs is for an overspend of £20k (unchanged from period 8) due to pressure on occupational health costs with the wellbeing initiative.

#### Professional Fees - £10k overspend

The forecasted year-end position for professional fees is for an overspend of £10k (Unchanged from period 8) relating to additional legal advice and associated barristers fees.

#### Other Equipment & Furniture - £60k overspend

The forecasted year-end position for Other Equipment & Furniture is for an overspend of £60k (a £10k increase from period 8) relating to a new Legal Case Management system and additional laptops and equipment requested around the force.

#### Agency Staff - £10k overspend

The forecasted year-end position for Agency staff is for a £10k overspend (unchanged from Period 8) due to agency staff employed at the front desk at the Community Safety Hub.

#### Other – (£50k) underspend

The forecasted year-end position for Other costs is for an underspend of (£50k) (an increase on the underspend of £10k from period 8) due to reduced requirements for Damage to property, Dangerous dogs and Drug Referral scheme.

### Collaborations

#### **Cleveland, Durham and North Yorkshire Dogs Unit (CDNYDU)**

The Cleveland budget for the joint unit is £874k. The forecasted year-end position is to breakeven.

#### **Cleveland Durham Specialist Operations Unit (CDSOU)**

The Cleveland budget for the joint unit is £5,067k. The forecasted year-end position is for an overspend of £50k based on anticipated additional contribution required for the unit.

#### **Cleveland and North Yorkshire Major Incident Team (CNYMIT)**

The Cleveland budget for the joint unit is £1,707k. The forecasted year-end position for CNYMIT is to breakeven.

#### **North East Region Specialist Operations Unit (NERSOU)**

The Cleveland budget for NERSOU was set at £1,820k. The forecasted year-end position for NERSOU is to breakeven.

#### **National Police Air Services (NPAS)**

The Cleveland budget for NPAS was set at £798k. The forecasted year-end position for NPAS is to breakeven.

### Capital Budget

On 28<sup>th</sup> February 2018, the PCC allocated the Force a capital budget of £6,094K for 2018/19 plus £580k of schemes that were deferred from 2017/18. In addition, schemes totalling £1,470k were brought forward from 2017/18 bringing the approved 2018/19 budget to £8,144k. Changes approved by the PCC (or the Chief Constable's CFO under delegated authority) in year resulting in a revised capital budget of £6,228k are set out at Appendix 4, with a full breakdown of schemes shown at Appendix 5.

### **Key Risk**

The key risk to delivery of the capital programme has been slippage against the delivery plan. Although funding is earmarked for each scheme and can be re-provided the following year, the resources required to deliver the schemes in the new financial year places a greater burden on the delivery teams.

## **Update on Key Schemes**

Points to note are:

### **Estates Schemes**

#### **Cleveland Community Safety Hub (CCSH) – Total budget of £3,260k**

Building works for the CCSH commenced in March 2017 and the building became operational in July 2018. The majority of the work on the Community Safety Hub is now complete, with the remainder of the expenditure linked to snagging and the decommissioning of Ladgate Lane. The budget is closely monitored by the Project Board and expenditure follows contractual obligations which were re-phased to mirror the changes in the scope of the scheme.

#### **Grangetown LDC – Budget £59k**

There is a budget of £59k allocated for 2018/19 to complete the refurbishment of the lecture theatre and toilets, with work planned for later this financial year, but elements could slip into 2019/20.

#### **Thornaby Fire Station – Budget £7k**

The majority of the work for the refurbishment of Thornaby Fire Station was completed in 2017/18. £17k of costs has been incurred as at the end of December 2018 to pay for the Office Furniture and Bike Shelter. It is expected that there will be a £13k overspend against this scheme due to the specialist requirements for the Bike Shelter and Body Armour storage, with orders now placed for later.

#### **Billingham Rewire – Budget £40k**

This scheme has been deferred to 2019/20 due to delays with the specifications and procurement processes.

#### **Estates Replacement Windows – Budget £25k**

This scheme now covers the Cleveland Police estate and will be used at locations that require their windows to be replaced. The order for the replacement windows at the Learning Development Centre has been raised with the aim to complete the work before the end of March 2019.

### **Equipment Schemes**

#### **ANPR Equipment – Budget £35k**

There has been £28k spent year to date. The delivery of the national programme has been delayed due to issues identified following installation at Durham Police. The remaining £7k is earmarked for additional TSU equipment.

#### **Body Worn Video – Budget £100k**

There has been £72k spent to date on Body Worn Video and associated docking stations which have been issued for operational use with Incident Response and Integrated Neighbourhood Teams. The remaining £28k of budget is held pending the forces decision on personal issue cameras.

#### **Investigate Analytical System – Budget £40k**

This scheme has been deferred to 2019/20 due to the review as part of a wider multi-force collaboration.

#### **Key Management System – Budget £16k**



The remedial work required to bring all the key cabinets into operational use has been completed with £13k charged in July and the remaining £3k to be held until decisions are made around the potential move of teams.

#### Occupational Health Case Management System – Budget £40k

Procurement work, including an ICT impact assessment is currently underway for the purchase of a new occupational Health management system, but this may slip into 2019/20.

#### X-Ray Machine – Budget £20k

The new x-ray machine has been delivered and installed with a cost of £18k, resulting in an underspend of £2k.

#### Taser Replacement – Budget £75k

Plans are in place to raise the orders for the Taser equipment in January 2019 in line with the budget allocated.

#### Locard Replacement – Budget £100k

This scheme is no longer required due to an alternative arrangement being made with Durham Police to provide a repair and maintenance service for the current equipment. The budget has been returned to the OPCC.

### ICT schemes

As in previous years the complexities involved with the CCSH and the ICT requirements will have an effect on the delivery and timing of the key ICT schemes. ICT have reviewed their capital programme in line with the force's mobile device and Digital Asset Management System requirements and a total of £1,620k across ten schemes is not required in this financial year. Of this £960k is to be returned from six schemes and £666k from three schemes is deferred to 2019/20. The trial of 50 laptop/smartphones commenced in October for Response and Neighbourhood Officers. The business case for the workforce mobility will follow after an assessment of the results of the trial. It is envisaged that the funding is likely to require the re-provision of £1,430k.

#### ICCS – Budget £285k

The last milestone payment was made in July 2018 with the project now successfully completed, resulting in an underspend of £20k.

#### VMware Manager – Budget £50k

ICT are to review this scheme with a decision by the end of January on the deliverability in this financial year.

#### Cloud Based Data Centre – Budget £564k

This scheme is closely linked to the CCSH project and is closely monitored by the Project Board. At the end of December there has been £535k spent on specialist IT and Audio Visual equipment.

#### ESMCP – Budget £24k

Delays in the national programme have meant that the full program of work is not envisaged to proceed this year. Of the original budget of £87k, the ICT team have confirmed that the only expected costs in 2018/19 will be £24k and the remaining £63k has been deferred to 2019/20.

#### Desktop Replacement – Budget £155k

A total of £77k has been spent at the end of December 2018 on replacement desktop equipment. The remainder of this budget will be used to maintain the force's laptop capability in line with the laptop refresh programme and the future IT functionality.

#### Microsoft Licensing – Budget £219k

A total of £133k has been spent on licences at the end of December 2018, with the remaining £86k to be held for future use depending on the force's mobile device requirements.

#### Intelligent Call Handling – Budget £37k

£37k was carried forward into 2018/19 for the installation of equipment and training. A total of £32k has been spent to date with the remaining £5k kept for contingencies. The scheme is progressing through final testing with a go-live date of expected within the next 2 months.

#### Thin Client Improvement – Budget £50k

ICT are to review this scheme with a decision by the end of January on the deliverability in this financial year.

#### DSE Audit Capability – Budget £50k

The procurement of the system was completed in 2017/18, with a direct award to the supplier being confirmed. Payments totalling £55k have been paid in 2018/19 resulting in an overspend of £5k.

#### Corevet – Budget £40k

This scheme is progressing with an order to be raised for £44k. Delays in the delivery on the scheme and a change in the requirements will result in a £4k overspend.

#### Networked CCTV Solution – Budget £150k

ICT are working with procurement to review this scheme with a decision by the end of January on the deliverability in this financial year.

#### National ICT Enablement - £50k

This scheme is no longer required in this financial year, with £45k of the budget to be utilised to fund the overspend on the Backup Infrastructure Expansion shelf.

#### Backup Infrastructure Expansion Shelf – Budget £30k

A total of £75k has been spent to date resulting in an overspend on the original budget of £45k. This is due to an error in the original estimated costs. This has been rectified by utilising the National ICT Enablement budget which is no longer required.

#### Windows Server upgrade – Budget £25k

ICT are currently working on the requirements for a procurement exercise for the top-up of Windows Server 2019 licenses, with the orders to be placed before the end of the financial year.

#### Control Room Solution Improvements – Budget £50k

This scheme is no longer required and the £50k budget has been returned to the OPCC.

#### Web Based Mapping/Gazetter Service - £25k budget

Orders for £20k have been raised, resulting in a forecasted £5k underspend. Delivery is expected to be before the end of the financial year.

#### ACESO Replacement – Budget £103k

This scheme has been deferred to 2019/20 due to a decision to join the National Procurement process with a contract award expected in April 2019.

#### Automated PDR – Budget £46k

The contract for the procurement of the cloud based PDR system was awarded at the start of November 2018 with the implementation timetable aimed for delivery in January 2019. There is a forecasted £5k underspend due to savings identified during the procurement exercise.

#### DFU Servers – Budget £46k

An additional budget of £46k has been allocated to this year's capital programme to rectify the current storage and backup solutions issues within DFU. Costs of £50k have been incurred at the end of December with some of the equipment that was ordered incorrectly to be returned to bring the spend back in line with the budget.

### **Fleet schemes**

#### Write-Offs/Uneconomical Repairs – Budget £258k

A total of £121k has been spent on 7 vehicles by the end of December 2018 on write-off vehicles. An additional £7k was added to the budget from a revenue contribution to capital to cover an additional vehicle required this year. Orders have been placed for a further 4 vehicles with delivery expected in 2019.

#### Black Box – Budget £10k

A decision has been made to return £123k of this year's original capital budget allocation to the OPCC for Black Box provision due to the change in requirements and to utilise the funds on other force priorities.

#### Fleet Replacement – Budget £432k

Of the 2018/19 fleet programme, 16 vehicles have been ordered and 14 have been delivered. The remaining 2 will be delivered during the financial year.

Joanne Gleeson  
Chief Finance Officer  
14<sup>th</sup> January 2019

<b>Changes to Revenue Funding</b>	<b>Month Added</b>	<b>Change</b>
		£000s
<b>Initial Funding Allocation</b>		<b>119,770</b>
Camera Enforcement	May-18	63
HIU Funding	Aug-18	2,009
Revenue Contribution to Fleet Capital	Sep-18	(7)
Mutual Aid	Oct-18	117
<b>Funding allocation at Month 9</b>		<b>121,952</b>

## Appendix 2

### Budget Monitoring Statement to 31st December 2018

	Annual Budget	Budget to Date	Actual to date	Variance to Date	Forecast Outturn
	£000s	£000s	£000s	£000s	£000s
<b>Pay Budgets</b>					
Police Pay & Allowances	65,476	49,197	49,175	(22)	(780)
Police Overtime	1,610	1,273	1,830	557	380
<b>Total Police Pay &amp; Allowances</b>	<b>67,086</b>	<b>50,470</b>	<b>51,005</b>	<b>535</b>	<b>(400)</b>
PCSO Pay & Allowances	4,290	3,218	3,289	71	(200)
PCSO Overtime	5	3	2	(1)	0
<b>Total PCSO Pay &amp; Allowances</b>	<b>4,295</b>	<b>3,221</b>	<b>3,291</b>	<b>70</b>	<b>(200)</b>
Staff Pay & Allowances	10,911	8,183	8,468	285	0
Staff Overtime	61	46	91	45	20
<b>Total Staff Pay &amp; Allowances</b>	<b>10,972</b>	<b>8,229</b>	<b>8,559</b>	<b>330</b>	<b>20</b>
<b>Total Pay &amp; Allowances</b>	<b>82,353</b>	<b>61,920</b>	<b>62,855</b>	<b>935</b>	<b>(580)</b>
<b>Non Pay Budgets</b>					
Sterial Charges	18,039	13,529	13,416	(113)	(100)
Premises	3,692	2,773	2,710	(63)	25
Custody	2,466	1,850	1,845	(5)	(10)
Other Police Pension Costs	2,787	2,091	2,346	255	235
Transport	1,503	1,127	1,053	(74)	20
External Support	1,770	1,327	768	(559)	(40)
National IT Charges	836	627	621	(6)	(10)
Insurance	1,070	802	1,024	222	0
Change & Contingency	639	589	253	(336)	245
Communications	836	627	625	(2)	60
National Police Air Service	352	264	264	0	0
Forensics	817	613	661	48	100
Maintenance Agreements	364	273	285	12	(10)
Computing	806	604	750	146	15
Surgeons & Medical Costs	286	215	226	11	20
Professional Fees	824	618	584	(34)	10
Other Equipment & Furniture	766	574	606	32	60
External Training, Seminars	769	577	517	(60)	0
Office Equipment & Expenses	225	169	169	0	0
Agency Staff	10	7	36	29	10
Other	441	331	252	(79)	(50)
Uniform	301	226	171	(55)	0
<b>Total Non-Pay</b>	<b>39,599</b>	<b>29,813</b>	<b>29,182</b>	<b>(631)</b>	<b>580</b>
<b>Total Expenditure</b>	<b>121,952</b>	<b>91,733</b>	<b>92,037</b>	<b>304</b>	<b>0</b>
<b>Memo Information</b>					
CDNYD	874	657	577	(80)	0
CDSOU	5,067	3,813	3,884	71	50
CNYMIT	1,707	1,281	1,237	(44)	0
NERSOU	1,820	1,367	1,581	214	0
NPAS	798	599	604	5	0

## Appendix 3

### Long Term Financial Plan (LTFP) 2018/19 to 2021/22 – Assessment of Risks

Risk	Detail	Mitigation
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Risk	Detail	Mitigation
<p>Changes to the future funding formulas for Police Forces.</p>	<p>The Policing Minister is committed to reforming the police funding formula and will bring forward proposals for public consultation.</p> <p>The current assumptions do not factor in any adverse impact as a result of a revised formula.</p> <p>Based on what is currently known of the proposals, this is a prudent assumption; however, it does present a potential risk.</p> <p>The earliest possible timing for the formula review is expected to be:</p> <p>Autumn 2019 work via joint working groups with HO, with a full consultation process in 2020 and implementation in 2021/22.</p>	<p>More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.</p>
<p>Future year's funding is lower than forecast.</p>	<p>The Police settlement is for a one period although some detail has been provided for 2020/21 should certain efficiency milestones be achieved.</p>	<p>More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.</p>
<p>A higher than forecast level of major incidents.</p>	<p>The number and cost of major incidents in any one year is unpredictable.</p>	<p>There is sufficient flexibility in the plan to absorb some additional costs depending on the magnitude and the time of year the issue becomes known.</p> <p>The CNY Joint MIT has introduced additional resilience into the system.</p> <p>The PCC may absorb any additional costs in total or part through the use of reserves or other income.</p>

Risk	Detail	Mitigation
<p>The continued acceleration of Police Officer and PCSO leavers above the planned profile outstripping our ability to recruit.</p>	<p>Pay budgets have been set based on assumptions in respect of officers and staff leaving and additional recruits being brought in. Should the number of leavers outstrip our ability to recruit this could result in capacity gaps and generate a material underspending.</p>	<p>Should a capacity gap emerge, service levels will be delivered through targeted overtime and the continued employment of police staff investigators along with a further recruitment of transferee Police Officers.</p>
<p>National mandation.</p>	<p>In recent years there has been national mandation of systems e.g. Pentip, resulting in unplanned costs to the Force.</p>	<p>There is sufficient flexibility in the plan to absorb some additional costs depending on the magnitude and the time of year the issue becomes known.</p> <p>The PCC may absorb any additional costs in total or part through the use of reserves or other income.</p>
<p>Police Pension Scheme 2015.</p>	<p>Test case on new pension scheme with risk due to Gender/Race inequality. The case is in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Police Pension Regulations 2015. The Court of Appeal ruled in December 2018 that the Government's changes to pensions with regard to judges and firefighters were discriminatory on the grounds of age. These cases were brought due to changes to public sector pensions in 2015, which also affected other public sector schemes including the police pension scheme. This</p>	<p>Cleveland has contributed to the NPCC legal defence of this case. Cleveland has at present 93 claims from Police Officers. No further detail is available on the impact to the Chief Constable but should there be a financial impact, more radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.</p>

Risk	Detail	Mitigation
	ruling could have significant implications however costs and funding implications are as yet unknown.	
Employment Tribunals.	An earmarked reserve has been set up to cover the cost of implementation.	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
Allard V the Chief Constable of Cornwall.	A recent court determination in the case of Allard v the Chief Constable of Cornwall in respect of historic on-call payments for specific staff groups has the potential to create a significant financial pressure for forces nationally.	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
Historic Case Review	Further work will take place in regards to historic case reviews following the establishment of the Cold Case Unit within the CNYMIT.	More radical options will be developed including further reductions in officers, PCSO and staff numbers and the use of further inter-force collaborations.
Data Breaches	The Force is the subject of on-going investigation in relation to four Data breaches. The outcome of these investigations could result in a significant fine. These data breaches have not been provided for in the current projections and could have a negative impact on the Forces financial position.	More radical options will be developed including further reductions in officers, PCSO and staff numbers and the use of further inter-force collaborations.



<b>Changes to Capital Funding</b>	<b>Month Added</b>	<b>Change</b>
		£000s
<b>Funding Allocation in LTFP</b>		<b>6,094</b>
Schemes deferred from 2017/18		580
Schemes carried forward from 2017/18		1,470
<b>Total Capital funding</b>		<b>8,144</b>
Revenue Contribution to Capital - Fleet	Sep-18	7
DFU Servers	Sep-18	46
Black Box	Sep-18	(123)
Stockton Rewire (deferred to 2019/20)	Sep-18	(40)
Mobile device replacement	Sep-18	(550)
Smartworks Mobile Applications	Sep-18	(180)
Livelinks (CJS)	Sep-18	(20)
Digital Interview Recording Equipment (deferred to 2019/20)	Sep-18	(500)
Cyber Security Improvements	Sep-18	(60)
Exchange Upgrade	Sep-18	(100)
EMSCP (deferred to 2019/20)	Sep-18	(63)
Locard replacement	Dec-18	(100)
ACESO replacement (deferred to 2019/20)	Dec-18	(103)
Control Room Solution Improvements	Dec-18	(50)
Investigate Analytical Software (deferred to 2019/20)	Dec-18	(40)
Billingham Rewire (deferred to 2019/20)	Dec-18	(40)
<b>Funding allocation at Month 9</b>		<b>6,228</b>

<b>Capital Monitoring Statement to 31st December 2018</b>					
	<b>Annual Budget</b>	<b>Budget to</b>	<b>Actual to</b>	<b>Variance to</b>	<b>Forecast</b>
		<b>Date</b>	<b>Date</b>	<b>Date</b>	<b>Outturn</b>
	£000s	£000s	£000s	£000s	£000s
<b>Estates Schemes</b>					
Cleveland Community Safety Hub	3,260	2,434	2,657	223	0
Grangetown LDC	59	30	11	(19)	0
Thornaby Fire Station	7	7	17	10	13
Estates Replacement Windows	25	19	0	(19)	0
<b>Total Estates Schemes</b>	<b>3,351</b>	<b>2,490</b>	<b>2,685</b>	<b>195</b>	<b>13</b>
<b>Equipment Replacement</b>					
TSU Equipment - NERSOU	25	25	19	(6)	0
ANPR	35	26	28	2	0
Body Worn Video Replacement	100	80	72	(8)	0
Key Management System	16	16	13	(3)	0
Occupational Health Case Management System	40	0	0	0	0
X Ray Machine	20	20	18	(2)	(2)
TASER	75	56	0	(56)	0
<b>Total Equipment Schemes</b>	<b>311</b>	<b>223</b>	<b>150</b>	<b>(73)</b>	<b>(2)</b>
<b>ICT Schemes</b>					
ICCS Replacement	285	261	250	(11)	(20)
Experian-Date of Birth Appendage	20	20	20	0	0
VM Ware	50	50	0	(50)	0
Cloud Based Data Centre	564	0	535	535	0
EMSCP	24	0	8	8	0
Desktop Replacement Programme	155	154	77	(77)	0
Microsoft Licensing	219	219	133	(86)	0
Intelligent Call Handling	37	37	32	(5)	0
Thin Client Improvement	50	50	0	(50)	0
DSE audit capability	50	50	55	5	5
Corvet	40	40	0	(40)	4
Networked CCTV Solution	150	150	1	(149)	0
National ICT Enablement	50	0	0	0	(50)
Backup Infrastructure Expansion Shelf	30	30	75	45	45
Windows Server Upgrade	25	0	0	0	0
Web Based Mapping/Gazetter Service	25	25	0	(25)	(5)
Automated PDR	46	0	22	22	(5)
Mobile Working Project	0	0	63	63	0
DFU Servers	46	0	50	50	0
<b>Total ICT Schemes</b>	<b>1,866</b>	<b>1,086</b>	<b>1,321</b>	<b>235</b>	<b>(26)</b>
<b>Fleet Replacement</b>					
Write off / Uneconomical Repairs	258	109	121	12	0
Black Box Replacement	10	0	0	0	0
Fleet Replacement	432	392	308	(84)	0
Fleet Replacement - CSP	0	0	1	1	0
<b>Total Fleet Replacement</b>	<b>700</b>	<b>501</b>	<b>430</b>	<b>(71)</b>	<b>0</b>
<b>Provision for Business Cases</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL CAPITAL</b>	<b>6,228</b>	<b>4,300</b>	<b>4,586</b>	<b>286</b>	<b>(15)</b>



Item 2b

**Report of the Chief Finance Officer of the PCC  
To the Police and Crime Commissioner for Cleveland**

**20<sup>th</sup> February 2019**

**Status: For Information**

**2018/19 Budget Monitoring – Report to the end of December 2018**

**1. Executive Summary**

**1.1 Purpose of the Report**

On the 28<sup>th</sup> February 2018 the PCC agreed the revenue Budget for 2018/19 which was based on the receipt of income totalling £134,644k. This report is to provide the PCC with an update on all areas of the budget, including forecasts of how much income will actually be received during the year, the progress against the budget to date and forecasts on the expenditure for the remainder of the financial year.

**2. Recommendations**

The PCC is asked to note:

- 2.1 The Office of the PCC's budget of £860k is expected to breakeven during 2018/19.
- 2.2 The Corporate Services budget of £9,475k is expected to underspend slightly, by £45k, at this point of the financial year.
- 2.3 The £3,939k to support PCC Initiatives and Victims and Witnesses Services, including £1,450k to invest in Neighbourhood Policing is forecast to underspend by £200k at this stage of the financial year.
- 2.4 It is currently forecast that the income received by the PCC will be £355k more than the original budget.
- 2.5 The Force is currently forecasting to breakeven.
- 2.6 The total forecast outturn at the end of the 3<sup>rd</sup> quarter of the financial year is that there will be an overall underspend of £600k although it is worth remembering that the 2018/19 budget is being supported by £950k from General Reserves.

**3. Reasons**

3.1 When setting the budget for the financial year 2018/19 the PCC allocated the income forecast to be received during the year, of £134,644k, into the following areas:

- £860k to run the Office of the PCC
- £3,939k to support PCC Initiatives and Victims and Witnesses Services
- £9,475k for Corporate Services
- £119,770k to the Police Force
- £1,400k to the Capital Programme
- £150k to Earmarked Reserves
- This will be supported by £950k from General Reserves

The following sections will look at the above areas in more detail and provide updates and forecasts for each area, including any changes that have been made since the original budget was approved and set.

### 3.2 Income and Funding

The PCC set the budget based on receiving income and funding of £134,644k during 2018/19 from the areas summarised in the table below, the in-year changes, the actual levels of income forecast to be received and variances are shown below. In addition to current year figures the comparator figures for 2017/18 is also shown.

2017/18 Budget	In Year Changes	2017/18 Revised Budget	2017/18 Outturn	Variance	Summary of Income to be Received by the PCC	2018/19 Budget	In Year Changes	2018/19 Revised Budget	2018/19 Forecast Outturn	Variance
£000s	£000s	£000s	£000s	£000s	Funding	£000s	£000s	£000s	£000s	£000s
(46,973)	1,466	(45,508)	(45,508)	0	Police Grant	(45,508)	0	(45,508)	(45,508)	0
(36,526)	(1,466)	(37,992)	(37,992)	0	RSG/National Non Domestic Rate	(37,992)	0	(37,992)	(37,992)	0
<b>(83,500)</b>	<b>0</b>	<b>(83,500)</b>	<b>(83,500)</b>	<b>0</b>	<b>Government Grants</b>	<b>(83,500)</b>	<b>0</b>	<b>(83,500)</b>	<b>(83,500)</b>	<b>0</b>
(32,656)	0	(32,656)	(32,656)	0	Precept	(34,582)	0	(34,582)	(34,582)	0
(800)	0	(800)	(800)	0	Council Tax Freeze Grant	(800)	0	(800)	(800)	0
(6,868)	0	(6,868)	(6,868)	0	Council Tax Support Grant	(6,868)	0	(6,868)	(6,868)	0
<b>(40,324)</b>	<b>0</b>	<b>(40,324)</b>	<b>(40,324)</b>	<b>0</b>	<b>Precept related funding</b>	<b>(42,251)</b>	<b>0</b>	<b>(42,251)</b>	<b>(42,251)</b>	<b>0</b>
(5,217)	(759)	(5,976)	(7,275)	(1,299)	Specific Grants	(6,157)	(2,009)	(8,166)	(8,236)	(70)
(2,664)	(1,331)	(3,996)	(4,314)	(318)	Partnership Income/Fees and Charges/Misc Income	(2,737)	(180)	(2,917)	(3,202)	(285)
<b>(7,881)</b>	<b>(2,091)</b>	<b>(9,972)</b>	<b>(11,589)</b>	<b>(1,616)</b>	<b>Other Funding</b>	<b>(8,894)</b>	<b>(2,190)</b>	<b>(11,083)</b>	<b>(11,438)</b>	<b>(355)</b>
<b>(131,705)</b>	<b>(2,091)</b>	<b>(133,796)</b>	<b>(135,412)</b>	<b>(1,616)</b>	<b>Total</b>	<b>(134,644)</b>	<b>(2,190)</b>	<b>(136,834)</b>	<b>(137,189)</b>	<b>(355)</b>

### 3.3 In Year Changes

Only minor changes to the core budget, totalling £180k, have been made to the income budget, at this stage, resulting primarily from an increase of £63k, relating to the Driver Training Income to set the non-pay budget for

this area of work and £117k in relation to income from Mutual Aid that has been provided to the Force to undertake this work.

3.4 In addition to this increase in core income the PCC was notified that the application for the continuation of a Special Grant for Operation Pandect was successful, for 2018/19, for up to £3.3m. The level of the grant that will be received will be determined by the level of expenditure incurred directly on this Operation – under the terms of the grant the PCC/Force are required to meet the first 15% of the expenditure on this Operation which has been incorporated into the Force’s core budget.

3.5 The budget available to the Force for 2018/19 has therefore been increased by £2,009k to reflect part of this Grant.

3.6 Income Forecasts

As you would expect, the vast majority of the income the PCC will receive during 2018/19 has already been agreed and little or no variances will be expected against the originally budgeted figures for Government Grant funding or Precept related funding.

3.7 The areas where variances may occur will predominantly be in relation to Partnership Funding, Fees and Charges and Miscellaneous Income with some minor variances possible against Specific Grants. These variances have reduced significantly in recent years and it is currently expected that overall there will be limited variances on these budgets at this stage.

3.8 There is a relatively small forecast over recovery of income of £355k at this stage of the financial year as a result of the expected receipt of some unbudgeted Specific grants and some minor better than expected receipts on other income.

3.9 The Office of the PCC

The 2018-19 budget of £860k for the Office of the PCC is split into the following areas:

Original 2017/18 Budget	Budget YTD	Spend YTD	Over/ (Under) spend YTD	PCC Budget	Original 2018/19 Budget	Budget YTD	Spend YTD	Over/ (Under) spend YTD	2018-19 Forecast	2018-19 Forecast
£000	£000	£000	£000	Category of Spend	£000	£000	£000	£000	£000	£000
645	645	661	16	Staff Pay and Allowances (Incl. NI and Pension)	680	510	500	(10)	680	0
5	5	10	5	Other Pay and Training	5	4	3	(0)	5	0
239	189	172	(17)	Supplies and Services	215	161	114	(47)	215	0
11	11	7	(4)	Transport	10	7	6	(2)	10	0
(50)	(83)	(80)	3	Miscellaneous Income	(50)	(38)	(73)	(35)	(50)	0
<b>850</b>	<b>767</b>	<b>770</b>	<b>3</b>	<b>Total Budget</b>	<b>860</b>	<b>645</b>	<b>551</b>	<b>(94)</b>	<b>860</b>	<b>0</b>

3.10 Position as at the end of December 2018

The table at 3.9 above shows the forecast position for 2018-19. Forecasts show that expenditure for 2018-19 is expected to be in line with budget however this will be dependent on the current review of the staff structure within the OPCC and any costs that arise as a result of that. If the timings of this review slip into 2019/20 then the underspend that is likely on the overall budget will be earmarked to meet any costs of this review in 2019/20.

### 3.11 Corporate Services

Corporate Services budgets include the costs of the PFI contracts, strategic contract management, asset management costs, treasury management and planning.

3.12 The Corporate Services budget for 2018/19 was set at £9,475k, as per the table below which also shows the forecast spend and outturn at this stage of the year.

Original 2017/18 Budget	Revised 2017/18 Budget	Spend YTD	Over/ (Under) spend YTD		Original 2018/19 Budget	Revised 2018/19 Budget	Budget YTD	Spend YTD	Over/ (Under) spend YTD	2018/19 Forecast Outturn	2018-19 Forecast Over/ (Under)
£000s	£000s	£000s	£000s	<u>Corporate Services Budget</u>	£000s	£000s	£000s	£000s	£000s	£000s	£000s
				<u>Category of Spend</u>							
330	361	363	2	Staff Pay and Allowances (Incl. NI and Pension)	465	465	349	411	62	465	0
99	99	95	(4)	Supplies and Services	94	94	71	77	6	218	123
1	1	5	4	Transport	1	1	1	6	6	8	7
1,770	590	568	(22)	PFI - Urlay Nook	1,820	1,820	1,365	1,344	(21)	1,792	(28)
5,145	1,588	1,599	11	PFI - Action Stations	5,240	5,240	3,930	3,816	(114)	5,108	(132)
1,605	5,838	5,740	(98)	Asset Management	1,855	1,855	1,391	1,396	4	1,840	(15)
<b>8,950</b>	<b>8,478</b>	<b>8,371</b>	<b>(106)</b>	<b>Total Budget</b>	<b>9,475</b>	<b>9,475</b>	<b>7,106</b>	<b>7,050</b>	<b>(57)</b>	<b>9,430</b>	<b>(45)</b>

3.13 A small underspend of £45k is currently forecast in this area as a result of taking out loans at a lower interest rate, in March and April 2018, than expected when setting the budget in February. In addition to this an insurance rebate on the PFI contract, and contractual savings made in this area have resulted in the current forecast position.

### 3.14 PCC Initiatives and Victims and Witnesses Services

The PCC has allocated a budget of £3,939k to support Community Safety and PCC Initiatives, deliver Victims and Witnesses services and also invest in Neighbourhood Policing during 2018/19. £1,139k was allocated to the Community Safety and PCC Initiatives budget, £1,350k to Victims and Witnesses Services and £1,450k to invest in Neighbourhood Policing. The position as at the end of September is as per the below table:

	Original 2018/19 Budget	Current 2018/19 Budget	Budget YTD	Spend YTD	Over/ (Under) spend YTD	2018/19 Forecast Outturn	2018-19 Forecast Over/ (Under)
<u>PCC Initiatives and Victims and Witnesses</u>	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<u>Category of Spend</u>							
PCC Initiatives	1,139	1,139	854	604	(250)	1,082	(56)
Investment in Neighbourhood Policing	1,450	1,450	1,087	0	(1,087)	1,311	(139)
Victims and Witnesses Services	1,350	1,350	1,013	787	(225)	1,366	16
Community Safety Fund	0	0	0	61	61	0	(21)
<b>Total Budget</b>	<b>3,939</b>	<b>3,939</b>	<b>2,954</b>	<b>1,452</b>	<b>(1,502)</b>	<b>3,760</b>	<b>(200)</b>

3.15 In addition to the original allocations to this area the PCC has a Community Safety Fund Earmarked Reserve with the intention to release £150k per annum from this reserve. This reserve will be released in line with expenditure made in this area.

3.16 Plans, including Grant agreements, where appropriate, are in place to deliver most of PCC Initiatives for 2018/19. In terms of the investment of £1,450k

into Neighbourhood Policing for 2018/19, there are a number of vacancies with the posts funds by the PCC and this is forecast to lead to an underspend in this area of around £140k, with a forecast across all areas within this section forecast to underspend by £200k.

#### 4. Police Force

4.1 The vast majority of the funding available to the PCC has been provided to the Police Force. The Force was initially allocated a budget of £119,770k for 2018/19, this has since increased by £2,182k, to £119,833k. This is as a result of setting the expenditure budget for costs associated with the Driving Training scheme, additional budgets providing from Mutual Aid Income and the successful application for Special Grant in relation to Operation Pandect that was referenced earlier in this report. The summary of how this is forecast to be spent, including forecast outturns are included in the table below:

<b>Police Force Financial Summary</b>	<b>Original 2018/19 Budget</b>	<b>Revised 2018/19 Budget</b>	<b>Forecast Spend in 2018/19</b>	<b>2018/19 Forecast (Under)/ Overspend</b>
<b><u>Police Force Planned Expenditure</u></b>	<b><u>£000s</u></b>	<b><u>£000s</u></b>	<b><u>£000s</u></b>	<b><u>£000s</u></b>
<b><u>Pay</u></b>				
Police Pay	64,043	65,476	64,696	(780)
Police Overtime	1,402	1,610	1,988	378
Staff Pay	10,525	10,911	10,911	0
Police Community Support Officer Pay	4,360	4,290	4,090	(200)
<b>Pay Total</b>	<b>80,330</b>	<b>82,288</b>	<b>81,686</b>	<b>(602)</b>
<b><u>Major Contracts</u></b>				
Outsourcing Contract	17,900	18,039	17,939	(100)
Custody and Medical Contract	2,466	2,446	2,435	(11)
<b>Major Contracts Total</b>	<b>20,366</b>	<b>20,485</b>	<b>20,374</b>	<b>(111)</b>
<b><u>Non-Pay Budgets</u></b>				
Other Pay and Training	756	826	857	31
Injury and Medical Police Pensions	2,787	2,763	2,998	235
Premises	3,662	3,692	3,714	22
Supplies and Services	7,455	7,483	7,993	510
Transport	1,456	1,503	1,515	12
External Support	2,958	2,913	2,815	(98)
<b>Non-Pay Total</b>	<b>19,074</b>	<b>19,179</b>	<b>19,892</b>	<b>713</b>
<b>Total Planned Force Expenditure</b>	<b>119,770</b>	<b>121,952</b>	<b>121,952</b>	<b>0</b>

4.2 Further details on the Force's finances are included elsewhere on today's agenda.

#### 4.3 Reserves

The 2018/19 budget was to be supported by £1,925k from Reserves. This is made up of the following transactions:

- £75k to the PFI Reserve.
- £75k to the Insurance/Legal Reserve
- £950k from the General Fund.

4.4 In addition to this, £1,400k was to be used to support the Capital Programme during 2018/19.

4.5 These transactions will occur as a matter of course during the 2018/19 financial year. Current forecast for movements on Earmarked and General Reserves to the end of 2018/19 are included within the table below:

	<b>Balance at 31 March 2018 £000</b>	<b>Tranfers In 2018/19 £000</b>	<b>Tranfers Out 2018/19 £000</b>	<b>Balance at 31 March 2019 £000</b>
Legal/Insurance Fund	(500)	(1,033)		(1,533)
Direct Revenue Funding of Capital	(1,669)	(2,007)	2,031	(1,645)
Injury Pension Reserve	(245)			(245)
PFI Sinking Fund	(213)	(75)		(288)
Incentivisation Grant	(412)	(80)	80	(412)
Urray Nook TTC	(81)			(81)
NERSOU	(45)			(45)
Job Evaluation Reserve	0			0
Police Property Act Fund	(40)			(40)
Community Safety Initiatives Fund	(322)		150	(172)
Road Safety Initiatives Fund	(658)		150	(508)
Collaboration Reserve	(942)			(942)
Pay Reserve	(1,700)		1,700	0
Commissioning Reserves	(366)		28	(339)
PCC Change Reserve	(50)		50	0
Revenue Grants Unapplied	(137)		109	(28)
<b>Total Earmarked Reserves</b>	<b>(7,379)</b>	<b>(3,195)</b>	<b>4,297</b>	<b>(6,277)</b>
<b>General Reserves</b>	<b>(6,073)</b>	<b>(850)</b>	<b>950</b>	<b>(5,973)</b>
<b>Unapplied Capital Grants</b>	<b>(1,003)</b>	<b>(515)</b>		<b>(1,518)</b>
<b>Total Usable Reserves</b>	<b>(14,455)</b>			<b>(13,768)</b>

## 5. Overall Budget Summary

5.1 At the end of December 2018 the follow table summarises the finances of the PCC, including forecasts of the expected outturn in each area.



	Original 2018/19 Budget	Revised 2018/19 Budget	Forecast Spend in 2018/19	2018/19 Forecast (Under)/ Overspend
<b>Funding</b>	£000s	£000s	£000s	£000s
Government Grant	(83,500)	(83,500)	(83,500)	0
Council Tax Precept	(34,582)	(34,582)	(34,582)	0
Council Tax Freeze Grant	(800)	(800)	(800)	0
Council Tax Support Grant	(6,868)	(6,868)	(6,868)	0
<b>Funding for Net Budget Requirement</b>	<b>(125,750)</b>	<b>(125,750)</b>	<b>(125,750)</b>	<b>0</b>
Specific Grants	(6,157)	(8,166)	(8,236)	(70)
Partnership Income/Fees and Charges	(2,737)	(2,917)	(3,202)	(285)
<b>Total Funding</b>	<b>(134,644)</b>	<b>(136,834)</b>	<b>(137,189)</b>	<b>(355)</b>
<b>Office of the PCC Planned Expenditure</b>	£000s	£000s	£000s	£000s
Staff Pay	680	680	680	0
Non Pay Expenditure	180	180	180	0
<b>Total Planned Expenditure</b>	<b>860</b>	<b>860</b>	<b>860</b>	<b>0</b>
<b>PCC Initiatives/Victims and Witness</b>	£000s	£000s	£000s	£000s
PCC Initiatives	2,589	2,589	2,373	(216)
Victims and Witnesses Services	1,350	1,350	1,366	16
<b>Total Planned Expenditure</b>	<b>3,939</b>	<b>3,939</b>	<b>3,739</b>	<b>(200)</b>
<b>Corporate Costs</b>	£000s	£000s	£000s	£000s
Staff Pay	465	465	465	0
Non Pay Expenditure	95	95	225	130
PFI's	7,060	7,060	6,900	(160)
Asset Management	1,855	1,855	1,840	(15)
<b>Total Corporate Costs</b>	<b>9,475</b>	<b>9,475</b>	<b>9,430</b>	<b>(45)</b>
<b>Police Force Planned Expenditure</b>	£000s	£000s	£000s	£000s
Police Pay	64,043	65,476	64,696	(780)
Police Overtime	1,402	1,610	1,988	378
Staff Pay	10,525	10,911	10,911	0
Police Community Support Officer Pay	4,360	4,290	4,090	(200)
<b>Pay Total</b>	<b>80,330</b>	<b>82,288</b>	<b>81,686</b>	<b>(602)</b>
<b>Major Contracts</b>				
Outsourcing Contract	17,900	18,039	17,939	(100)
Custody and Medical Contract	2,466	2,446	2,435	(11)
<b>Major Contracts Total</b>	<b>20,366</b>	<b>20,485</b>	<b>20,374</b>	<b>(111)</b>
<b>Non-Pay Budgets</b>				
Other Pay and Training	756	826	857	31
Injury and Medical Police Pensions	2,787	2,763	2,998	235
Premises	3,662	3,692	3,714	22
Supplies and Services	7,455	7,483	7,993	510
Transport	1,456	1,503	1,515	12
External Support	2,958	2,913	2,815	(98)
<b>Non-Pay</b>	<b>19,074</b>	<b>19,179</b>	<b>19,892</b>	<b>713</b>
<b>Total Planned Force Expenditure</b>	<b>119,770</b>	<b>121,952</b>	<b>121,952</b>	<b>0</b>
<b>(Surplus)/Deficit</b>	£000s	£000s	£000s	£000s
	<b>(600)</b>	<b>(607)</b>	<b>(1,207)</b>	<b>(600)</b>
Planned Transfers to/(from) General Fund	(950)	(950)	(950)	0
Contribution to Capital Programme	1,400	1,407	1,407	0
Planned Transfers to/(from) Earmarked Reserves	150	150	150	0
<b>Net (Surplus)/Deficit After Reserves</b>	<b>0</b>	<b>0</b>	<b>(600)</b>	<b>(600)</b>

5.2 At this stage of the financial year a relatively small underspend of £600k is forecast. The previously forecast overspend on the Force's budget has been addressed.

5.3 In addition to this additional income has been received which has increased the underspend by the £190 forecast at the end of September. There is an expectation of more income in the final quarter, in relation to the Special Grant, which is likely to lead to a higher underspend by the end of the financial year.

## **6. Implications**

### **6.1 Finance**

There are no financial implications other than those mentioned above.

### **6.2 Diversity & Equal Opportunities**

There are no issues arising from this report to bring to the attention of the PCC.

### **6.3 Human Rights Act**

There are no Human Rights Act implications arising from this report.

### **6.4 Sustainability**

This report is part of the process to establish sustainable annual and medium term financial plans and maintain prudent financial management.

### **6.5 Risk**

The expenditure budgets are very tight and are being actively managed to deliver against the priorities and plans whilst staying within budget. The capacity to absorb unexpected costs and pressures is therefore very limited.

## **7. Conclusion**

7.1 The proposed 2018/19 budget underpins the PCC's objectives of:

- Investing in Our Police
- A Better Deal for Victims and Witnesses
- Tackling Re-offending
- Working together to make Cleveland safer
- Securing the future of our Communities

As you would expect the finances of the organisation are very tight, with the best service possible trying to be delivered within the budgetary constraints.

As we move towards the end of the financial year the potential pressures in relate to Data Breaches and Pay Awards have not materialised and overall expenditure budgets have been brought back to a breakeven position.

There have been a number of areas where additional income has been received which is expected to deliver a relatively small underspend, with an expectation that this might grow by the end of the financial year as the final payments in relation to the Special Grant are factored into the overall financial position.

Michael Porter  
PCC Chief Finance Officer



## **Report of the Chief Finance Officer of the PCC to the Police and Crime Commissioner**

**20<sup>th</sup> February 2019**

**Executive Officer: Michael Porter, CFO**

**Status: For Approval**

### **Robustness of Estimates and Adequacy of Financial Reserves**

#### **1. Purpose of the Report**

1.1 The Local Government Act 2003 requires the Chief Financial Officer (CFO) of the Police and Crime Commissioner (PCC) to report formally on the robustness of the budget for consideration immediately prior to setting the Budget. This report aims to ensure that the PCC is aware of the opinion of the CFO of the PCC regarding the robustness of the budget as proposed, including the longer term revenue and capital plans, the affordability of the capital programme when determining prudential indicators and the adequacy of general balances and reserves. The PCC is required to take account of this report when determining its budget.

#### **2. Recommendations**

The PCC is asked to:

2.1 Note the contents of this report and take them into account when setting the 2019/20 Revenue and Capital Budgets, and when considering the Long Term Financial and Capital Plans.

2.2 Approve the Reserves Strategy as set out in Appendix A.

#### **3. Background**

3.1 There is a requirement for the PCC's CFO to report formally and specifically on the robustness of estimates and the adequacy of the level of reserves contained within any budget proposals being considered by the PCC.

#### **4. Robustness of Estimates**

##### **4.1 Financial Strategy**

4.2 The PCC has established a framework, whereby the Long Term Financial Plan (LTFP) regime seeks to provide stability and confidence in supporting the achievement of the PCC's priorities and objectives. These are set out in the

Police and Crime Plan. The LTFP looks in detail at the forthcoming year and projects forward over the following three years.

#### 4.1.1 Available Funding

The £145,365k of funding forecast to be available to the PCC in 2019-20, to support expenditure, is expected from the following sources, and is shown in comparison to the 2018/19 budgeted figure of £134,644k:

	<b>Actual</b>	<b>Actual</b>	<b>Movement</b>
	<b>2019/20</b>	<b>2018/19</b>	<b>Year on Year</b>
<b>Funding</b>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Government Grant	(85,253)	(83,500)	(1,753)
Council Tax Precept	(38,784)	(34,583)	(4,202)
Council Tax Freeze Grant	(800)	(800)	0
Council Tax Support Grant	(6,868)	(6,868)	0
<b>Funding for Net Budget Requirement</b>	<b>(131,706)</b>	<b>(125,751)</b>	<b>(5,955)</b>
%age change in Net Budget Requirement	4.7%		
Specific Grants	(5,880)	(4,911)	(969)
Witness and Victims Funding	(1,411)	(1,246)	(165)
Partnership Income/Fees and Charges	(2,893)	(2,737)	(157)
<b>Total Core Funding</b>	<b>(141,890)</b>	<b>(134,644)</b>	<b>(7,246)</b>
%age change in Total Core Funding	5.4%		
Special Grant	(3,475)	0	(3,475)
<b>Total Overall Funding</b>	<b>(145,365)</b>	<b>(134,644)</b>	<b>(10,721)</b>

4.1.2 The Government Grant, Council Tax Freeze Grants, Council Tax Support Grant and Specific Grants are based predominantly on national settlement figures and therefore the risks to these sources of funding are minimal. There are a number of specific grants for which allocations have yet to be announced, such as the Counter Terrorism grant and therefore this could be less than assumed.

4.1.3 The Specific Grants budget is £970k more than 2018/19, this is predominantly due to the receipt of the new Pensions Grant of £1,324k offset by level of payment for the Capital Financing Grant, which is £475k less than 2018/19, which relates to debt taken out pre-1990. All of this debt comes to an end by 2021/22 which will result in some large variances in the level of grant over the next few years however all of these are factored into the financial plans.

4.1.4 As a precepting Authority the PCC receives a proportion of the Council Tax paid within Cleveland based on the Band levels that were proposed and agreed with the Police and Crime Panel. These receipts have generally been a very secure source of income and this shouldn't change for 2019/20. Any shortfall due to lower than expected collection rates or from reductions in the number of properties within Cleveland would not impact on the finances for 2019-20 but would have to be taken into account in 2020-21.

4.1.5 Over the last 14 years there have been no instances where Council Tax receipts over the 4 councils collectively have been less than forecast. Now that the changes resulting from the Localisation of Council Tax support have

been embedded it is unlikely that any issues will arise that change this position.

- 4.1.6 The £2,893k of income that is factored into the 2019-20 budget for Partnership Income and Fees and Charges, is in line with 2018-19 and as has been seen throughout 2018/19 the receipt of income within this area is in line with this budget. This area includes secondment income, special services income and interest received on cash invested. While there are likely to be variances against the budgeted amounts, at a specific level, the risk that the income received by the PCC in total from these and other sources being lower than budgeted is low.
- 4.1.7 Included outside of the Core Funding totals is the Special Grant that the PCC has been successful in bidding for to support the work being undertaken within the Historical Investigation Unit. The actual level of the Grant will be determined by the expenditure incurred in this area with the grant expected to cover 85% of the costs. While the level of the grant may vary this will be if the expenditure varies and therefore there should be no significant impact on the overall financial plans.
- 4.1.8 The total funding that the 2019/20 budget is based upon can therefore be described as very secure and the PCC can take a high level of assurance that the budget is based on robust income assumptions.
- 4.1.9 Government Funding for 2020/21 and beyond
- 4.1.10 Beyond 2020-21 there is little information about future levels of government grant settlements. In announcing the 2019/20 final Police Settlement there was no further mention of future settlements other than to repeat “this is the last settlement before the next Spending Review, which will set long term police budgets and look at how resources are allocated fairly across police forces. The Home Office is grateful to the police for the good work they are doing to build the evidence base to support that work, and we will also want to see evidence that this year’s investment is being well spent.”
- 4.1.11 There are no plans to review the Police Allocation Formula until after the Spending Review. The reference to looking at “how resources are allocated fairly across police forces” is likely to refer to the ongoing work between the Home Office and the Police Sector to support the submission to the Spending Review. There are work streams investigating funding streams and funding models – i.e. regional/local arrangements but no plans yet to review the current police allocation formula.
- 4.1.12 At this stage the LTFP therefore assumes that the level of Government Grant remains at the same level in 2020/21 as it will be in 2019/20. This is a realistic assumption given the trends of the last 10 years or so and the switch towards local funding.
- 4.1.13 Beyond 2020/21 the LTFP assumes that Government Grants will begin to increase in line with inflation of 2%. There is clearly a risk that this might not happen as by 2021/22 it will have been a decade since Government Grant funding for Policing last saw any increase in real terms.

4.1.14 The 2% increase in 2021/22 is worth £1.7m therefore if this doesn't happen the current plans would need to be re-visited. This is clearly an area that will be kept under review as the LTFP is developed for future years.

4.1.15 Precept

Despite the difficult economic situation, and the changes to the levels of Council Tax Support given to individuals, the Councils have collectively managed to collect more Council tax than they had assumed for at least the last 16 years.

4.1.16 The average collection surplus payable to the 'Police' in relation to the amounts that the 4 councils managed to collect in excess of their forecasts has been £370k over the last 16 years. The LTFP has assumed that this collection surplus will be £250k each year. As such this is a reasonable estimate given that the average is inflated by very higher surpluses experienced in the 4 years prior to 2018/19 and that in both 2018/19 and 2019/20 the surplus has returned to a more normal level of £327k and £349k respectively.

4.1.17 In addition to incorporating an annual collection surplus the precept plans also incorporate annual growth in the underlying tax base of 1.0% per annum. This is in line with forecast from the Local Councils. Average tax base growth over the last 16 years has been 1.1% however this has, in a similar way to the collection surplus information, been inflated by significant growth in the 4 years between 2013/14 and 2016/17. The 1.0% growth per annum is however a reasonable assumption although could prove to be a prudent estimate if housebuilding continues to develop at its current pace.

4.1.18 Future Precept Plans

In line with the lack of guidance in relation to Government Funding there is also no formal indication in relation to what limits will be placed on precept increases in future years.

4.1.19 The planning assumption within the LTFP is based on an assumption that the level of precept charged to each household will increase by £12 next year before reverting to a limit of 1.99% per annum. This is however an annual decision for the PCC.

4.1.20 These are reasonable assumptions based on current information, with the forecast increases beyond 2020/21 likely to be on the prudent side given current policy.

4.1.21 The overall total income projections, when taking both Government Grant and Precept into account, are expected to be reasonable forecasts.

4.1.22 Expenditure Plans

Preparation of the budget, including decisions on key assumptions, while based on the most up to date information and forecasts will always have a degree of uncertainty and risk. This risk is managed by having a robust budget process and having balances and reserves that are set to take into account the financial and operational uncertainty that exists.

- 4.1.23 There are a number of key estimates within the 2019/20 budget and LTFP, these are set out below along with the potential risks where applicable:
- 4.1.24 Police Pay Awards and Levels of Police Officers  
The LTFP assumes that Police Pay will increase by 2% in September 2019 and then by 2% each September thereafter.
- 4.1.25 It was announced in September 2018 that Scottish police officers would receive an immediate 6.5% pay increase backdated to 1 September 2018 and which applies until 31 March 2021.
- 4.1.26 Given that Police Officers in England and Wales received a pay increase that, in reality, was worth less than 1% in September 2018 then there is likely to be some significant pressure for a better pay increase from September 2019.
- 4.1.27 There are a number of scenarios currently being modelled and all of these would cost more than the currently budgeted position of 2% increases per annum across the life of the LTFP.
- 4.1.28 All of these scenarios would cost more in 2019/20 – between £0.6m and £0.9m and across a 3 year period would cost more by between £1.3m and £2.2m.
- 4.1.29 Should any of these scenarios materialise then savings/reductions would need to be made to meet these costs. There will be no additional funds from the government to meet these costs – the Government have been clear in the recent past that the additional precept flexibility that they have provided to PCC's would need to cover any pay awards.
- 4.1.30 There is a risk that it may not be possible for national negotiations to contain Police Officer pay within the budgeted limits, as has been the case in 2017/18 when Pay Awards to Police Officers were in excess of previously indicated Government caps. These increases were unfunded from the Government and therefore the additional costs had to be met by the PCC and Police Force.
- 4.1.31 To mitigate some of this risk an Earmarked Reserve for Pay is maintained that should provide the capacity to absorb any increase that is higher than the budgeted amount during 2019/20, which would be provided to the Force to develop plans to manage financially from 2020/21 and beyond.
- 4.1.32 To provide an indication of the potential pressure that could develop from pay awards that are beyond those factored into the financial plans then each 0.5% increase over the 2% budgeted within 2019/20 would cost around £200k during 2018/19 and £350k per annum thereafter.
- 4.1.33 The Force have a stable 'minimum' resource requirement based on demand analysis factored into their financial plans, and while this will change over time the current expectation is that there will be a requirement for 1,230 - 1,240 FTE Police Officers to deliver against the Police and Crime Plan objectives based on this minimum requirement.

4.1.34 Through the additional precept capacity and the expected savings from the return of the Sopra Steria services to the Force in 2020 there is capacity to increase the number of Police Officers within the Force through the investment of £1m into this area.

4.1.35 The ability to recruit more might however prove a challenge and the Force are working on this. If this recruitment can't take place then the £1m that is current sat within the PCC Service Improvement and Development Fund will not be released to the Force and an underspend will develop within the overall budget.

4.1.36 PCSO and Staff Pay Awards and FTE's

The number of staff and PCSO's factored into the financial plans are as per the table below.

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
<b><u>Employee Numbers (Average per year)</u></b>	FTEs	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,280	1,236	1,239	1,239	1,231	1,231
PCSOs	148	147	131	131	131	131
Police Staff - Police Force	285	309	426	426	395	395
OPCC Staff	11	11	14	14	14	14
Corporate/Commissioning Staff	9	11	12	10	10	10

4.1.37 As at 31<sup>st</sup> December 2018 there were 131 FTE PCSOs employed by the Force and therefore the Force will start 2018/19 close to the revised full establishment in this area and therefore significant underspends should not materialise in this area based on FTE's

4.1.38 In term of staff FTE however there were 319 FTEs employed at the end of December 2018, which is significantly lower than the budgeted establishment for 2019/20. This is an area that will need to be closely watched and recruitment progressed quickly otherwise both underspends and service delivery will be impacted.

4.1.39 The assumptions in relation to the Pay Award for staff and PCSOs are the same as for Police Officers, in that there is an assumption that there will be an annual increase of 2% each year in September. The risk is the same as for Police Officer pay in that national negotiations may settle at a higher level which is something that the PCC and CC have little to no control over and should this occur then the current budgets will come under some pressure. Each 0.5% increase in pay beyond the 2% factored into Staff and PCSO budgets would cost the organisation around £50k in 2019/20 and £90k per annum thereafter.

4.1.40 Inflation

The 2019/20 budget allows for specific allocations of inflation where necessary in line with either contractual arrangements or estimates however inflation in general is higher than the increases in funding that have been possible this year and if inflation does not begin to plateau or reduce then this could provide for additional pressures during 2019/20.



- 4.1.41 From an income perspective inflation has been applied on fees and receivables for 2019/20 onwards, subject to known variances. Specific grants have no inflation assumed unless notified by the payer, while any anticipated reductions have been accounted for.
- 4.1.42 Savings Requirements  
The plans and savings proposals included in the budget for 2019/20 and the LTFP in general seem robust.
- 4.1.43 To deliver against the 2019/20 budget the Force will need to deliver £45k of, as of yet, unidentified savings within the year.
- 4.1.44 Clearly these are very small amounts based on the size of the overall budget and therefore shouldn't prove an issue in overall budgetary terms.
- 4.1.45 It is important to reflect that the estimated savings, of £1.5m to £2.0 per annum, from returning the services currently provided by Sopra Steria to the Force, from the 1<sup>st</sup> October 2020, are reflected in the LTFP on the assumption that the savings identified in making that decision are then delivered.
- 4.1.46 It will be important that these are closely monitored and managed to ensure they are delivered.
- 4.1.47 The PCC will see from the Budget and LTFP report that based on the current funding assumptions, as set out in this report, that the budget for 2019/20 will balance providing the above savings plans are delivered. There are little risks from these savings plans and the financial estimates are robust. The risks are as outlined within this report.
- 4.1.48 It is important to recognise that the ability to raise precept by more than planned, whilst helpful from financial perspective, provide very little time to plan. Accordingly there is a risk that an underspend developed during 2019/20 while the additional resources that the precept flexibility has enabled are recruited.
- 4.1.49 The current LTFP is showing a balanced budget across the next 4 financial years based on current plans and assumptions however, as indicated within this report, when discussing pay, there are significant areas of the budget that may increase beyond the assumptions within the budget that neither the PCC nor Chief Constable have any real control over.
- 4.1.50 It is also vital to appreciate that the Government have been very clear in the past when providing the additional Precept flexibility to PCC's that this will need to cover any increased in pay awards. Therefore if pay awards are agreed at a level that is beyond the assumptions within this plan that they will have to be found from within the funding available and that no additional funds will be provided by Government to pay for these.
- 4.1.51 The organisation has a secure and stable financial platform from which to deliver against the Police and Crime Plan for both next year and beyond. This is a stronger position than the one reported a year ago however there continue to be a number of significant areas that will need to be closely monitored over the coming months and years.

4.1.52 The plan provides for capacity to move beyond the 'minimum' resourcing requirements set out by the Force and some further capacity to move further towards the 'Required' resourcing requirement and it is therefore vital that this is delivered.

4.1.53 Capital Expenditure and Financing

The capital programme to 2022/23 is based on spending around £16.5m over the next 4 years.

4.1.54 In terms of the funding of this investment and expenditure, the £16.5m will be funded as follows:

- Government Grants - £2.2m (up from £2.1m a year ago)
- Capital Receipts - £11.8m (up from £9.6m a year ago)
- Contributions from Revenue - £7.8m (up from £7.1m a year ago)
- We will look to re-pay Borrowing of £9.2m (up from £4.3m a year ago)
- Borrowing - £1.2m

4.1.55 Prior to 2014/15 I highlighted that there was a recurring and ultimately unsustainable need to borrow to fund capital given the very small amount of Capital Grant that the PCC now receives each year – it will be £0.5m in 2019/20. This was addressed from 2014/15 onwards which put the financing of capital expenditure on a more sustainable footing.

4.1.56 It is vital that this is not lost otherwise significant amounts of revenue funding will then need to be set aside to fund interest on loans and to set aside for minimum revenue provision.

4.1.57 In terms of the robustness of these funding sources the Government Grant for Capital purposes seems to have reduced as far as it will and only provides the PCC with £526k per annum. While no future reductions are factored into the plans there is now so little left of the Capital Grant that any future changes are likely to be marginal.

4.1.58 The level and timing of Capital Receipts is all predominantly covered by a contract for the sale of Ladgate Lane and therefore can be viewed as a robust source of funding.

4.1.59 The contributions from revenue are factored into the balanced LTFP. These contributions are therefore as robust as the overall revenue plans which has been discussed in detail within this paper.

4.1.60 The financial implications of borrowing are factored into the revenue plans, decisions as to whether to borrow will be made at the most appropriate time and in line with cash flow needs. The PCC has access to the Public Works Loans Board (PWLB) for borrowing and therefore the availability of the finances needed to fund the plans will not cause any issues.

4.1.61 Capital Reserves is discussed further in section 5 of this report.

## **5. Adequacy of Financial Provisions, Reserves and Balances**

5.1 The adequacy of financial reserves is the second requirement on which the CFO must have confidence. In reality, there is no real difference between the factors that determine both the level of reserves and the estimates themselves. Reserves are simply longer term planning mechanisms to set aside resources for a future use. As such, the section above dealing with robustness of estimates can be fully applied to arriving at a confident statement that reserves are adequate in nature i.e. the Financial Strategy and processes and procedures within the overall budget strategy all culminate in determining the level of reserves required to support the Long Term Financial Plan.

## 5.2 **Reserves & Provisions**

The PCC maintains a number of reserves with the main ones discussed below.

### 5.2.1 General Fund

At the 31<sup>st</sup> March 2016, the General Fund stood at £8,627k. Based on the LTFP for 2019/20 to 2022/23 the level of General Fund is expected to reduce to £5,024k by the end of 2019/20 and then remain at this level. The General Fund would then equate to the equivalent of 3.5% of the overall funding expected to be available to the PCC in 2019/20 and 3.8% of the forecast Net Budget Requirement for that same year.

5.2.2 Both the amount and percentage are slightly higher than those projected last year and result from a concern about the continued level of risks that seem to continue to materialise particularly in relation to litigation risks.

5.2.3 These levels and percentages are as low as I would recommend that the organisation plans to have, unless the risk environment significantly improves, and it is therefore vital that should any pressures materialise either during 2019/20 and/or over the planning period that they are addressed within the current resources, where a specific Earmarked Reserve does not exist. There is no capacity within reserves to absorb any further costs without the reserves then being replaced.

5.2.4 In terms of the general reserve of the PCC, it is both adequate and robust for the current projected financial position over the next 4 years based on the current risks and the potential risks as referenced within this report.

### 5.2.5 Capital Reserves and Capital Receipts

At the 31<sup>st</sup> March 2016 the PCC held Capital Reserves that totalled £3.6m; this is expected to reduce to £1.0m by 2022/23.

5.2.6 There are undoubtedly areas of investment that the organisation will need, or want, to make that are currently unknown and there will also be changes to the timing and amounts of the funding estimated within the plans, however these plans will need to be assessed and prioritised against those already planned.

5.2.7 The current plans seem to have a better understanding of the significant challenges of delivering against the Digital Strategy and how this links with the National Work.

5.2.8 There continues to be a risk around the visibility of all of the costs of the National IT programmes and how much these will cost Force to both implement and then maintain going forward.

5.2.9 Further Earmarked Reserves

The PCC has additional earmarked reserves that are detailed within Appendix A along with the projected movements over the LTFP period.

Useable Reserves

5.2.10 These reserves are collectively known as 'Useable' Reserves. The definition being reserves that 'can be used to fund expenditure or reduce local taxation'. As at the 31<sup>st</sup> March 2017 the Audited Statement of Accounts for the PCC showed that the organisation had Total Useable Reserves of £14.4m and based on the current plans I expect this to reduce to a balance of £10.9m by the end of 2021/22 although much will depend on how many of those risks that have been identified materialising.

5.2.11 While £10.9m may still seem like a significant amount of money I would not recommend that the PCC seeks to reduce this significantly below this level without having a much clearer idea of what it happening with Pay Award, that the litigation environment becomes clearer and that both the next Comprehensive Spending Review and the Funding Formula have been concluded.

**6. Statement of the PCC's Chief Finance Officer**

6.1 As CFO to the PCC it is my duty to specifically comment on the robustness of the estimates put forward for the PCC's consideration. For the reasons set out in this report and from my own review of the estimates process I am satisfied that the proposed spending plan for 2019/20 is sound and robust. There are limited unknown savings factored into the revenue plan to deliver this balanced budget.

6.2 From financial perspective the biggest risks are likely to be that underspends develop as it proves difficult to recruit either Police Officers and/or Staff quickly enough to deliver against the plans within the budget.

6.3 From a cost perspective the biggest risk will be in relation to the levels of pay awards agreed during the year.

6.4 It will therefore be vital to continue to closely monitor the financial position throughout 2019/20 to ensure that the finances support the delivery and achievement of the Police and Crime Plan objectives and that the longer term plan, especially in relation to the work to return the services currently provided by Sopra Steria are delivered.

6.5 The funding available to deliver the Capital plans of the organisation are robust and the focus will continue to be on delivering the schemes and the benefits that are expected from those scheme. The major challenge in this area will be the delivery of the Digital Strategy, how this links with both the National work and also how the Force ensures that this is Business lead piece of work and not an IT programme.

- 6.6 A review has been undertaken of the PCC's reserves and general balances. The PCC's general balances and reserves are an important part of the PCC's risk management strategy giving the financial flexibility to deal with unforeseen costs or liabilities. Assuming the approval of the plan set out in the budget report, I am satisfied that the PCC would have adequate levels of financial reserves and general balances through 2019/20 provided that service restructuring is delivered and future growth, if any, is managed and funded from sustainable savings.
- 6.7 In 2020/21 and beyond there is no real clarity around future levels of funding and this combined with other risks that I have outlined in this report mean that I recommend that the PCC holds a general reserves closer to 4% of Total Funding, in contrast to last years' recommendation that a reduction to around 3% of the Total Funding Available to the PCC would be appropriate. This is reflected in the reserves strategy that is attached at Appendix A.

## **7. Implications**

### **Finance**

- 7.1 Other than the references made above there are no specific financial or staffing implications in respect of this report.

### **Risk**

- 7.2 There will always be an element of risk that estimates are not fully robust or accurate which may lead to unfunded budget pressures becoming apparent during the year. This report sets out the process and basis for ensuring robustness and minimising the risk of unforeseen problems. As outlined in the report the PCC should ensure that it sets aside sufficient balances to ensure that any problems and liabilities can be dealt with.

## **8. Conclusion**

- 8.1 The PCC's budget setting process has been designed to ensure that estimates brought forward for approval are sound and robust. This report confirms that approach.
- 8.2 Similarly, the PCC's policy is to ensure that it has sufficient levels of reserves and balances to provide for known, anticipated and unforeseen costs and liabilities. I am satisfied that the proposals emerging from the 2019/20 budget process are clear, soundly based and deliverable, and that the approach to reserves and balances contained therein are appropriate.
- 8.3 In setting a budget for 2019/20 the PCC will need to continue to have regard to the underlying level of available resources. The budget report requires the PCC to take a robust approach to this issue by agreeing a long term financial plan aimed at maintaining a sustainable position through the Plan period.
- 8.4 While the financial position for 2019/20 is relatively challenging, the estimates they are based on are robust. This is also the same for the remaining period covered by the LTFP.

### Reserves Strategy

It is necessary for police to hold financial reserves, including for emergencies and major change costs and as part of the steps to improve transparency around reserves there is a requirement for PCC to publish a reserve strategy.

As part of these steps to improve transparency:

- Each PCC should publish their reserves strategy on their website, either as part of their medium term financial plan or in a separate reserves strategy document. The reserves strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve held for each year. The reserves strategy should cover resource and capital reserves and provide information for the period of the medium term financial plan (and at least two years ahead).
- Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the PCC's medium term financial plan.

The strategy should be set out in a way that is clear and understandable for members of the public, and should include:

- how the level of the general reserve has been set;
- justification for holding a general reserve larger than five percent of budget;
- details of the activities or items to be funded from each earmarked reserve, and how these support the PCC and Chief Constable's strategy to deliver a good quality service to the public.
- Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.

The information on each reserve should make clear how much of the funding falls into the following three categories:

- Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.
- Funding for specific projects and programmes beyond the current planning period.
- As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).

## **Reserves Policy**

The PCC has had a Reserves Policy in place throughout his time in office, which has been updated annually as part of the Budget Setting Process. The principles that underpin this area are as follows:

1. Reserves will only be established in accordance with legislation or codes of practice, for defined purposes and only with the approval of the Police and Crime Commissioner's Chief Finance Officer. When reviewing the long term financial plan and preparing the annual budget, the PCC shall consider the establishment and maintenance of reserves.
2. These can be held for three main purposes:
  - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing - this forms part of general reserves.
  - A contingency to cushion the impact of unexpected events or emergencies - this also forms part of general reserves.
  - A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.
3. The PCC's general reserve will act as a safety net against the risks of:
  - a) reductions in grant,
  - b) in-year reductions in budgeted funding
  - c) work force modernisation costs
  - d) delays in delivery of savings plans
  - e) and unforeseen circumstances such as:
    - Expenditure on major incidents that significantly exceed the budgeted provision for such incidents.
    - Levels of inflation that significantly exceed the budgeted provision.
    - Expenditure on "demand-led" lines that significantly exceed the budgeted provision.
4. The appropriate level of the general reserve will be assessed each year when the budget is set. The assessment will have regard to the circumstances and budget for that year, to prospects for future years' budgets, and to any Home Office policy on special grant. The minimum level of the general reserve shall be 3% of the Total Funding available to the PCC.
5. The application of the general reserve will require the specific approval of the PCC as advised by the PCC's CFO. In the normal course of events decisions will be made on the principle that a one-off contribution from the general reserve should be made to support one-off and not continuing expenditure.
6. The position on the general reserve will be monitored in-year by the PCCs CFO as part of the budgetary control process, and proposals brought to deal

with any significant adverse movements compared with the budgeted position. The presumption will be that any net underspending on the revenue budget shall flow to the general reserve unless there is an in year decision to utilise this to address performance matters.



## Reserves Forecast

The following schedule sets out the forecast movements on reserves over the life of the current long term financial plan, it is important to recognise that whilst the schedule sets out the expected use of the current reserves circumstances will change and all reserves will be reviewed at least annually. It is also important to recognise that there will undoubtedly be a need to create new reserves, in future years, to deal with risks that are currently unknown; therefore while the current schedule shows that the overall level of risks will reduce significantly, the likelihood is that they will not reduce in overall financial terms as exactly planned and that while current reserves are spent new reserves are likely to be needed to manage future risks.

	Balance at 31 March 2018 £000	Tranfers In 2018/19 £000	Tranfers Out 2018/19 £000	Balance at 31 March 2019 £000	Tranfers In 2019/20 £000	Tranfers Out 2019/20 £000	Balance at 31 March 2020 £000	Tranfers In 2020/21 £000	Tranfers Out 2020/ £000
<b>Funding for projects &amp; programmes over the period of the current MTFP</b>									
Direct Revenue Funding of Capital	(1,669)	(2,007)	2,030	(1,646)	(2,120)	3,766	(0)	(2,710)	1,600
Community Safety Initiatives Fund	(322)		150	(172)		150	(22)		2
PCC Change Reserve	(50)			(50)		50	0		
Commissioning Reserves	(366)		28	(339)		260	(79)		
Road Safety Initiatives Fund	(658)		150	(508)		150	(358)		15
<b>Sub Total</b>	<b>(3,065)</b>	<b>(2,007)</b>	<b>2,358</b>	<b>(2,714)</b>	<b>(2,120)</b>	<b>4,376</b>	<b>(458)</b>	<b>(2,710)</b>	<b>1,777</b>
<b>Funding for projects &amp; programmes beyond the current MTFP</b>									
PFI Sinking Fund	(213)	(75)		(288)	(75)		(363)	(75)	
Incentivisation Grant	(412)	(80)	80	(412)	(80)	80	(412)	(80)	80
Police Property Act Fund	(40)			(40)			(40)		
<b>Sub Total</b>	<b>(665)</b>	<b>(155)</b>	<b>80</b>	<b>(740)</b>	<b>(155)</b>	<b>80</b>	<b>(815)</b>	<b>(155)</b>	<b>80</b>
<b>General Contingency</b>									
Legal/Insurance Fund	(500)	(633)		(1,133)	(75)		(1,208)	(75)	
Injury Pension Reserve	(245)			(245)			(245)		
Urley Nook TTC	(81)			(81)			(81)		
NERSOU	(45)			(45)			(45)		
Collaboration Reserve	(942)			(942)			(942)		
Pay Reserve	(1,700)		700	(1,000)			(1,000)		
Revenue Grants Unapplied	(137)		109	(28)		28	(0)		
<b>Sub Total</b>	<b>(3,649)</b>	<b>(633)</b>	<b>809</b>	<b>(3,473)</b>	<b>(75)</b>	<b>28</b>	<b>(3,520)</b>	<b>(75)</b>	
				0			0		
<b>Total Earmarked Reserves</b>	<b>(7,379)</b>	<b>(2,795)</b>	<b>3,247</b>	<b>(6,928)</b>	<b>(2,350)</b>	<b>4,484</b>	<b>(4,794)</b>	<b>(2,940)</b>	<b>1,857</b>
<b>General Reserves</b>	<b>(6,073)</b>	<b>(850)</b>	<b>950</b>	<b>(5,973)</b>	<b>0</b>	<b>950</b>	<b>(5,023)</b>		
<b>Unapplied Capital Grants</b>	<b>(1,003)</b>	<b>(515)</b>		<b>(1,518)</b>	<b>(526)</b>	<b>1,879</b>	<b>(164)</b>	<b>(535)</b>	
<b>Total Usable Reserves</b>	<b>(14,455)</b>			<b>(14,418)</b>			<b>(9,981)</b>		

## **Why have these Reserves been established and what will they used for?**

### **Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan**

#### **Direct Revenue Funding of Capital**

This reserve is held to meet the forecast costs of capital schemes which will enable the capital needs of the organisation to be funded in a sustainable manner, without the need to increase borrowing beyond what is determined to be a prudent level and to also provide some contingency to fund unknown investments whether these be from local changes or national initiatives.

#### **Community Safety Fund**

The PCC has established the reserve to support local community safety initiatives over the period of his term in Office. £150k per annum has been set aside to support this initiative.

#### **PCC Change Reserve**

The PCC has established this reserve meet any costs of a current change programme within the OPCC. £50k has been set aside for this area which is expected to be needed during 2019/20.

#### **Commissioning Reserve**

The PCC has been successful in obtaining additional grants to support various areas within the Police and Crime Plan. This reserve holds funds so that those areas that have been commissioned can be managed in line with commitments and that appropriate plans can be put in place if funding is not received in the future.

#### **Road Safety Initiative Reserve**

The reserve has been created to hold funding to be spent on road safety initiatives as advised by the Cleveland Road Safety Partnership.

### **Funding for specific projects and programmes beyond the current planning period.**

#### **Action Stations PFI Sinking Fund**

As with any building the upkeep and maintenance of the PFI buildings happen in an uneven manner dependent of the lifecycle of the maintenance needed. These variations in lifecycle give rise to variable amounts of charges across the life of the building. This fund will be used to manage the uneven changes to that charge across the remaining life of the contract so that significant costs are not incurred in any one year. The level of contribution and use of reserve are determined by the forecast payments over the life of the PFI contracts

#### **Incentivisation Grant**

This reserve relates to Cleveland's share of seized cash provided by the Government and will be spent on eligible schemes in future years. The funding is ringfenced and variable in nature and the funding will be spent in line with the terms of the funding. The PCC has no control over the level of this reserve and it cannot be used to meet everyday expenditure.

#### **Police Property Act Fund**

The Police Property Act Fund comprises monies received by the PCC from property confiscated by order of court and then sold. The PCC administers the fund and considers applications from voluntary organisations and community groups within the Cleveland area. The main aim of the fund is to support local projects undertaken by voluntary/charitable organisations that benefit the communities of Cleveland, especially those which have a positive impact in reducing crime and disorder at a local level. Funding is allocated from this Fund on a quarterly basis in line with bids that meet the requirement of the fund.

**As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).**

**Legal/Insurance Reserve**

The PCC maintains an internal Insurance Fund that carries virtually all insurable risks with a limited amount of external cover for special risk incidents and to cover accumulated losses exceeding an agreed amount depending on risk. The fund receives income from the income and expenditure account to cover the cost of external insurance premiums and internal insurable risks.

The settlement of claims are not uniform and therefore the strain on the revenue fund in any one year can result in situations where services need to be resisted in year to fund claims that may have happened in previous years but for which a claim has only just been made.

This fund is therefore being established to manage these claims in a way that doesn't impact on services on an annual basis.

The annual contribution has been established based on a review of claims over the last 10 years.

**Injury Pension Reserve**

This reserve is to provide funding for the variable nature of future injury/medical retirements of Police Officers and the capital equivalent charges incurred. The reserve provides for approximately 3 retirements of this nature.

**Tactical Training Centre**

The Tactical Training Centre is run on a Collaborative basis between Cleveland and Durham and has reserves that total £162k to meet any variable costs/needs of the unit, these reserves are held by the PCC for Durham, PCC's share of these reserves total £81k and will be used as needed.

**NERSOU**

The North East Regional Special Operations Unit (NERSOU) is a collaboration between Northumbria, Durham and Cleveland Forces to address organised and serious crime. At the 31<sup>st</sup> March 2018 Northumbria on behalf of the unit held reserves of £201k, to meet any variable costs/needs of the unit, of which Cleveland's share is £45k. These reserves are review annual as part of the Collaboration.

**Collaboration Reserve**

The reserve has been created to provide support to the work in relation to collaboration activity with other Forces and partners.

**Pay Reserve**

Nearly 80% of the overall budget is spent on Pay and/or items linked to Pay Awards. There is currently much debate relating to the level of future pay settlements. This reserve therefore provides some capacity for pay settlements that are in excess of the 2% that is provided for in the financial plans. This reserve can then provide time for plans to put in place over the medium term if pay awards are higher than the budget so as to avoid having to make significant in year reactionary reductions. The budget provides the capacity to absorb a pay award that is 1% higher than the budget for 1 year while alternative savings/reductions are identified.

**Revenue Grants Unapplied**

These grants are those which either have no specified conditions or the conditions have been met. They will be matched to relevant expenditure as incurred.



## Report of the Chief Finance Officer of the PCC to the Police and Crime Commissioner for Cleveland

20<sup>th</sup> February 2019

Status: For Information

### Long Term Financial Plan (LTFP) 2019/20 to 2022/23 and Capital Plans 2019/20 to 2022/23 including Reserves Strategy

## 2. Executive Summary

### 1.2 Purpose of the Report

This report asks the PCC to agree the Budget proposals for 2019/20 and the Long Term Financial Plan (LTFP) for 2019/20 – 2022/23 in line with the legal requirement to set a budget prior to the 1st March each year for the following financial year. It also asks the PCC to agree the funding for the Capital Programme for 2019/20 and the indicative allocations for the period 2020/21 to 2022/23.

## 2. Recommendations

2.1 The PCC is requested to approve the allocation of the £145,365k of revenue funding, that is forecast to be received by the PCC in 2019/20, in the following areas:

- £880k to run the Office of the PCC
- £5,440k to support PCC Initiatives and Victims and Witnesses Services
- £9,920k for Corporate Services
- £128,215k to the Police Force
- £2,120k to the Capital Programme
- This will be supported by £260k from Earmarked Reserves and £950k from General Reserves

2.1 The PCC is asked to note that the 2019/20 budget is based on the approved £24 increase in the level of Band D precept for 2019/20.

- 2.2 The PCC is asked to take cognisance of the Robustness of Estimates and Adequacy of Financial Reserves Report of the PCCs CFO that was discussed prior to this report.
- 2.3 The PCC is asked to agree that quarterly updates to the LTFP forecast will be brought to the PCC in 2019/20 to provide an update on the progress of the work to develop the future plans.
- 2.4 The PCC is asked to agree that quarterly updates on the 2019/20 budget will be brought to the PCC in 2019/20 to provide updates on performance against the 2019/20 budget.
- 2.5 The PCC is asked to approve borrowing of up to £1,200k can be taken out to fund the capital expenditure in 2019/20.
- 2.6 The PCC is asked to allocate £6,945k of Capital Budgets to the Chief Constable to deliver new schemes on behalf of the PCC.

### 3. Planning and Funding Assumptions

#### 3.1 Police Funding Settlement 2019/20

The Final 2019-20 Police Settlement was announced in a written ministerial statement by the Minister for Policing and the Fire Service Nick Hurd MP on Thursday 24 January 2019 and no changes were made to the Provisional Settlement which was announced on the 13<sup>th</sup> December . Full details of the settlement can be found on the Home Office pages of the gov.uk website.

#### 3.2 Headlines

The main points within the settlement are a headline of £970m additional funding for the service which includes:

- £161m additional formula funding,
  - £153m of pension grant,
  - £59m additional funding for Counter Terrorism,
  - £90m additional funding to tackle Serious and Organised Crime and
  - £509m as a result of additional council tax flexibilities.
- **Of the £970m approximately £813m is for local policing**
    - £509m precept
    - £143m pension grant
    - £161m additional Funding.
  - **Precept flexibility of up to £24** for all PCCs (or equivalent) in 2019-20. – this was only confirmed on the 29<sup>th</sup> January
  - **£161m additional grant funding** – made up of primarily £146m increase in core grant.
  - The settlement, including and assuming that each Police Force area increases the Police element of council tax by £24, and pension grant, represents an average cash increase (total funding) of 7.2% between 2018-19 and 2019-20.

- £160m additional Counter Terrorism funding (announced at the 2018 Autumn Budget) equivalent to an annual increase of £59m; an 8% increase on total CT funding.
- New Requirements - The minister's letter refers to the requirement to "drive efficiency, productivity and effectiveness".

3.3 It is important to reflect that this increase in funding does not reflect the significant increased Pension costs that have been passed to Forces to pay from 2019/20 onwards.

3.4 What is expected in return for this Flexibility and improved funding position?

The 2019-20 settlement provides more funding than had been previously expected. A letter to the Home Affairs Select Committee (HASC) outlines the Policing Minister's 4 priority areas to "drive efficiency, productivity and effectiveness next year":

- Continued efficiency savings in 2019-20 through collective procurement and shared services. There will be an expectation that every force contributes substantially to procurement savings and the Home Office will be working with the police to agree the "right force level objectives for 2019-20 and 2020-21".
- Major progress expected to resolve challenges in investigative resource identified by HMICFRS, including recruitment of more detectives to tackle the shortfall.
- Continue to improve productivity, including smarter use of data to deliver £50m of productivity gains in 2019-20.
- Maintain a Serious and Organised Crime response that spans identification and management of local threats as well as support for national priorities.

3.5 What does this mean for Cleveland in 2019/20 in terms of Funding and Costs?

- An increase in Police Grant of £1,753k or 2.1%
- A Pension's Grant of £1,324k

**HOWEVER**

- The impact of Police Pension changes to Cleveland is £3.3m

Therefore in overall cash terms, before Precept is considered, the organisation has less Cash than it had last year, from the Government, taking into account the additional Pensions Costs that have been passed from the Government to Local Forces.

3.6 In real terms therefore this is a further cut to Government Funding of circa £2.1m.

3.7 Based on the increase in precept being proposed then the overall impact on the Core funding for the organisation, taking into account the additional Pensions costs is set out in the table below:

<b>Funding the Net Budget Requirement</b>				
	<b>2019/20</b>	<b>2018/19</b>	<b>(Increase)/Reduction</b>	<b>Year on Year Change</b>
	£000s	£000s	£000s	%age
<b>Government Funding</b>				
Police Grant	(46,497)	(45,508)	(990)	2.2%
RSG/National Non Domestic Rate	(38,756)	(37,992)	(764)	2.0%
Council Tax Freeze Grant	(800)	(800)	0	
Council Tax Support Grant	(6,868)	(6,868)	0	
<b>Total Government Funding</b>	<b>(92,921)</b>	<b>(91,168)</b>	<b>(1,753)</b>	<b>1.9%</b>
Additional Police Pensions Grant	(1,324)	0	(1,324)	
Additional Police Pension Contributions	3,315	0	3,315	
<b>Actual Impact of Settlement changes</b>	<b>(90,930)</b>	<b>(91,168)</b>	<b>237</b>	<b>-0.3%</b>
<b>Impact of a £24 increase in Band D Precept - 10.6% increase</b>				
Net Surplus on Collection Funds	(349)	(327)	(22)	
Council Tax Requirement	(38,435)	(34,255)	(4,180)	
<b>Total Local Funding</b>	<b>(38,784)</b>	<b>(34,583)</b>	<b>(4,202)</b>	<b>12.1%</b>
<b>Total Government + Local Funding</b>	<b>(129,715)</b>	<b>(125,750)</b>	<b>(3,964)</b>	<b>3.2%</b>

- 3.8 How does Cleveland compare to the National Picture  
Setting aside the additional Pension Costs the government has stated that the settlement, including council tax and pension grant, represents an average cash increase (total funding) of 7.2% between 2018-19 and 2019-20.
- 3.9 Cleveland has not however seen an average increase in Total Funding; it will only receive an increase of 5.77% which will be the lowest in the Country.
- 3.10 Had Cleveland received an 'average' 7.2% increase in total funding (before significant additional Pension costs) then the PCC would have received a further £1.8m of additional recurring funding for 2019/20.
- 3.11 The highest increase in total funding, as a result of this settlement, within the country will be 8.48% (before additional Pension costs) and this will occur in Hertfordshire (assuming they increase their precept by £24). This would be 2.71% higher than the settlement for Cleveland. Had Cleveland achieved this settlement this would have equated to an additional £3.4m per annum more funding in 2019/20.
- 3.12 Precept  
Less than 30% of the Net Budget Requirement within Cleveland is funded by the local precept and therefore this provides less of a cushion to cuts in government grants, than in most Police Force areas and the ability to generate additional funding locally when Government Funding is constrained.
- 3.13 The Department for Communities and Local Government has published the council tax referendum principles for 2019/20 which provided the opportunity for PCCs to increase the Band D level of Police Precept by £24 without triggering a referendum.



- 3.14 Consultation was undertaken in relation to whether the public supports the option of increasing the Band D 'Police' precept by £24 per annum for 2019/20 and the response was that 68% of the 1,066 people who responded to the survey supported the option to increase the Band D precept by £24.
- 3.15 This increase was then proposed to the Police and Crime Panel who also supported this increase.
- 3.16 As stated elsewhere the LTFP is therefore based on a £24 increase in the Band D precept for 2019/20, this equates to a 10.6% increase.
- 3.17 For the purposes of planning, the balanced plan that is set out within this paper assumes the following:
- 2020/21– Band D Precept Increase of £12 per year (4.8%)
  - 2021/22 – Precept Increase of 1.99%
  - 2022/23 – Precept Increase of 1.99%
  - 2023/24 – Precept Increase of 1.99%
- 3.18 Over the last 5 years there have been significant increases in both the number of calculated Band D properties within Cleveland and also significant Collection Surplus' to which the PCC has benefited from. This has continued in 2019/20.
- 3.19 The number of Band D properties within Cleveland has increased by 2,198 (or 1.45%) to 153,409. This is in line with the average over the last 3 years. This plan assumes that the Tax Base increases by 1% per annum going forward, which is a prudent estimate based on forecasts from the Local Councils.
- 3.20 In addition to this the Collection Surplus for 2019/20 is £349,370 which is in line with our forecasts. This is factored into this LTFP along with an estimated Collection Surplus of £250k per annum going forward.
- 3.21 These assumptions will be kept under review as details for future years become available and projections amended accordingly.
- 3.22 Government Funding for 2020/21 and beyond  
There was no further mention of future settlements other than to repeat "this is the last settlement before the next Spending Review, which will set long term police budgets and look at how resources are allocated fairly across police forces. The Home Office is grateful to the police for the good work they are doing to build the evidence base to support that work, and we will also want to see evidence that this year's investment is being well spent."
- 3.23 There are no plans to review the Police Allocation Formula until after the Spending Review. The reference to looking at "how resources are allocated fairly across police forces" is likely to refer to the ongoing work between the Home Office and the Police Sector to support the submission to the Spending Review. There are work streams

investigating funding streams and funding models – i.e. regional/local arrangements but no plans yet to review the current police allocation formula.

- 3.24 Top-slices/Reallocations totalling £1,029m have been announced for 2019/20. This is £84m, or 9% higher than 2018/19. The areas this funding will now be spent on, instead of being allocated to PCC's is as follows:

<b>Police Funding</b>	<b>2017/18 (£m)</b>	<b>2018/19 (£m)</b>	<b>2019-20 (£m)</b>
<b>o/w Reallocations and adjustments</b>	<b>812</b>	<b>945</b>	<b>1,029</b>
PFI	73	73	73
Police technology programmes	417	495	495
Arm's length bodies	54	63	63
Top-ups to NCA and ROCUs			56
Strengthening the response to Organised Crime	28	42	90
Police transformation fund	175	175	175
Special Grant	50	93	73
Pre-charge bail	15	4	4

- 3.25 Legacy Council Tax funding is still separately identifiable and has not changed from 2018/19.
- 3.26 Police Capital Grant that is to be allocated to PCC's has been increased by £11k (or 2.2%) with the PCC only receiving £526k which won't even be enough to pay for the replacement of Police vehicles during 2019/20.

3.27 Counter Terrorism (CT)

At the Autumn Budget the Chancellor announced an additional £160m for counter terrorism policing, which is a £59m increase (8%) on the 2018-19 CT funding. The Police settlement confirmed these figures saying this additional funding will bring the total CT funding to £816m, including a £24m uplift in armed policing from the Police Transformation Fund.

It is estimated that approximately £20m of this funding is likely to be capital funding but this is subject to an in-year review in consultation with the national counter terrorism policing headquarters.

3.28 Ministry of Justice (MoJ) Funding

- 3.29 The Ministry of Justice have confirmed the level of the Victims and Witnesses Grant for 2019/20, and while the overall amount allocated to PCC's has remained static at £67,855k, the grant is allocated based on population.

- 3.30 As the population of Cleveland is not growing as quickly as others areas of the country the amount that will be received by the PCC in 2019/20 will be £1,920 lower than the amount received in 2018/19, with the total grant being £654k.

- 3.31 Specific Grants, Other Income and Partnership Fees and Charges  
These sources of income and funding are forecast to provide between £9.4m and £10.3m across the life of the plan. This is higher than in 2018/19 (£8.9m) as it reflects the additional funding that has been provided by the Government to the PCC to partially offset the significant increase in Police Pension costs that the Force will need to pay into the Police Pension Fund.
- 3.32 Police Pensions
- 3.33 On 6 September Her Majesty's Treasury (HMT) published their draft Directions on public service pension schemes for the 2016 Valuation which comes into effect in 2019/20. The Directions set both the financial assumptions (including changes to the Discount Rate) and demographic assumptions to be used by the Government Actuary's Department (GAD) to produce the valuation results for the Police pension scheme.
- 3.34 The most significant element of the Directions is that the Superannuation Contributions Adjusted for Past Experience (SCAPE) Discount Rate, which is used in unfunded pension schemes to convert future pension payments into a present value, will reduce from 3.0% to 2.4%.
- 3.35 This is due to a more pessimistic assessment by the OBR of the long-term forecast for growth in the economy. The Discount Rate reduction has the effect of increasing the cost of future benefits and therefore the required contribution rate. Payments to beneficiaries are unchanged by the Discount Rate changes and therefore the overall impact is a reduction in the amount paid by the Exchequer to meet the difference between contributions and payments via the Pension Top-Up Grant.
- 3.36 These changes have seen a sharp increase in costs. The costs, for the Police, are now estimated to be approximately £330m. With the cost to Cleveland estimates to be circa £3.3 per annum.
- 3.37 In 2019-20 the Treasury are providing PCC's with an additional £142.5m grant – of which Cleveland will receive £1.3m.
- 3.38 The current financial plans assume that this Pensions Grant of £1.3m will continue in future years, although there are no guarantees that this will happen. Clearly if the grant is not paid in the future then this will provide a significant gap in the current financial plan.
- 3.39 Special Grant
- 3.40 The PCC was successful in a Special Grant application to the Home Office in relation to costs for historical investigations in December 2017.
- 3.41 The continuation of this Grant is subject to annual review with the Home Office, with the Grant providing 85% of the costs of the work that is on-going in this area.

3.42 The Grant has been assumed (purely for financial planning purposes) to continue for the next 2 financial years, it is important to recognise that this Grant is planned to fund 85% of the costs of the following number of resources within the Force:

- 49 Police Officers
- 32 Police Staff

3.43 When these investigations come to an end and/or if the Special Grant is no longer available to the PCC then the Force will need to reflect this within both their Police Officer and Staff numbers. The Grant is estimated at £3.5m and therefore the overall impact will be significant. It is important however to recognise that this Grant is to provide additionality and therefore these resources should be above the core establishment of the Force.

3.44 The staffing numbers reflected in this LTFP align with the assumption that the Grant ends after 2 more year purely so that the organisation is aware of what the long term sustainable level of resources within the Force is. It is this level that should be looked at in terms of comparison with previous years.

3.45 LTFP Assumptions

When the 2018/19 budget was set in February 2018 the forecasts were underpinned by the following assumptions:

- Pay Awards: 2% increase per annum
- Precept: Increases of:
  - 2018/19 - £12 or 5.59%
  - 2019/20 - £12 or 5.29%
  - 2020/21 - £4.75 or 1.99%
  - 2021/22 - £4.84 or 1.99%
- Tax Base increases of 1.0% per annum
- Collection Surplus of £250k per annum
- Government Grants: Frozen until 2019/20 and the increases of 2% thereafter
- Impact of Funding Formula Review - Nil

3.46 In line with good planning our assumptions remain under review and are updated with the best information available and it is expected that the LTFP for 2019/20 and beyond will assume the following:

- Pay Awards: 2% increase p.a
- Precept: Increases of:
  - 2019/20 - £24 or 10.59%
  - 2020/21 - £12 or 4.8%
  - 2021/22 - £5.23 or 1.99%
  - 2022/23 - £5.33 or 1.99%
- Tax Base increases 1.0% per annum, Collection Surplus £250k p.a
- Government Grants: Frozen until 2020/21 and the increases of 2% thereafter
- Impact of Funding Formula review – Nil

3.47 Based on these revised assumptions, and the information received and forecast around other areas of funding, then the entire funding expected to be available to me for the next 4 years, in comparison to 2017/18 and 2018/19, is as follows:

	<b>Actual</b>				
	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
<b>Funding</b>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Government Grant	(83,500)	(85,253)	(85,253)	(86,958)	(88,697)
Council Tax Precept	(34,583)	(38,784)	(40,928)	(42,144)	(43,400)
Council Tax Freeze Grant	(800)	(800)	(800)	(800)	(800)
Council Tax Support Grant	(6,868)	(6,868)	(6,868)	(6,868)	(6,868)
<b>Funding for Net Budget Requirement</b>	<b>(125,751)</b>	<b>(131,706)</b>	<b>(133,850)</b>	<b>(136,770)</b>	<b>(139,766)</b>
%age change in Net Budget Requirement	1.6%	4.7%	1.6%	2.2%	2.2%
Specific Grants	(4,911)	(5,880)	(6,726)	(5,626)	(5,626)
Witness and Victims Funding	(1,246)	(1,411)	(654)	(667)	(680)
Partnership Income/Fees and Charges	(2,737)	(2,893)	(2,965)	(3,147)	(3,199)
<b>Total Core Funding</b>	<b>(134,644)</b>	<b>(141,890)</b>	<b>(144,195)</b>	<b>(146,210)</b>	<b>(149,270)</b>
%age change in Total Core Funding	2.2%	5.4%	1.6%	1.4%	2.1%
Special Grant	0	(3,475)	(3,500)	0	0
<b>Total Overall Funding</b>	<b>(134,644)</b>	<b>(145,365)</b>	<b>(147,695)</b>	<b>(146,210)</b>	<b>(149,270)</b>
<b>NBR Forecast - February 2018</b>	<b>(125,751)</b>	<b>(127,805)</b>	<b>(130,576)</b>	<b>(133,380)</b>	<b>(136,315)</b>
<b>Changes to NBR Funding Forecast</b>	<b>0</b>	<b>(3,901)</b>	<b>(3,273)</b>	<b>(3,390)</b>	<b>(3,451)</b>

3.48 As a result of the Government Grant settlements being better than expected, and the flexibility to increase precept by more than previously forecast, then the funding, at a Net Budget Requirement level, available to the PCC is higher than projected in February 2018 by £3.9m.

3.49 This needs to be viewed in the context of the increased Police Pension contribution requirement that totals £2m per annum, after allowing for an additional pensions grant. In overall terms the PCC will therefore have around £1.9m more income, at the Net Budgetary Requirement level, in 2019/20 than was expected a year ago.

3.50 This should therefore provide some opportunity to invest in 2019/20 in priority areas.

#### 4. Expenditure Plans

4.6 In setting the budget for 2019-20 the PCC is asked to make decisions on how the overall funding discussed in Section 3 is allocated. The PCC is asked to provide funding/budgets to the areas discussed in the following sections:

##### 4.7 Office of the PCC

The PCC has reduced the budget that was inherited from the former Police Authority by around £350k in cash terms and significantly more in real terms.

4.8 It is however not possible to continue to absorb increases in Pay and Pension Contributions and therefore a small increase in the budget for 2019-20 of £20k (or 2.3%) to £880k has been necessary. The impact of both pay inflation and general inflation will make it more difficult each year to maintain the budget at a standstill level and therefore inflationary increases have been added to the LTFP.

4.9 Further details are provided below:

<b>2015/16 Budget</b>	<b>2016/17 Budget</b>	<b>2017/18 Budget</b>	<b>PCC Budget</b>	<b>2018/19 Budget</b>	<b>Movement to 2019/20 Budget</b>	<b>2019/20 Budget</b>
<b>£</b>	<b>£</b>	<b>£</b>	<b>Category of Spend</b>	<b>£</b>	<b>£</b>	<b>£</b>
585,000	620,000	645,000	Staff Pay and Allowances	680,200	62,800	743,000
5,300	5,300	5,100	Other Pay and Training	5,100	0	5,100
288,700	261,700	238,900	Supplies and Services	214,700	(11,800)	202,900
11,000	11,000	11,000	Transport	10,000	0	10,000
(40,000)	(48,000)	(50,000)	Miscellaneous Income	(50,000)	(31,000)	(81,000)
<b>850,000</b>	<b>850,000</b>	<b>850,000</b>	<b>Total Budget</b>	<b>860,000</b>	<b>20,000</b>	<b>880,000</b>

4.10 Community Safety and Victims and Witnesses Commissioning

The role and responsibilities of the PCC is wider than Policing and this has been acknowledged with the addition of responsibilities around Community Safety and Victims and Witnesses services.

4.11 The Ministry of Justice have confirmed the level of the Victims and Witnesses Grant for 2018/19, and while the overall amount allocated to PCC's has remained static at £63,150k, the grant is allocated based on population.

4.12 As the population of Cleveland is not growing as quickly as others areas of the country the amount that will be received by the PCC in 2019/20 will be £1,920 lower than the amount received in 2018/19, with the total grant being £654k.

4.13 The PCC has however been successful in a number of Grant bids over the last couple of years and a number of those will provide funding in 2019/20. These successful bids will see the following:

- A doubling of the amount provided to each of the 4 Local Authority Areas within Cleveland to £74k (or £296k in total) to provide OutReach Programmes.
- In addition to this a further £190k will be invested in additional Youth Intervention work in 2019/20 as part of a successful bid of over £500k by the PCC.
- The PCC was also successful in with a bid for £200k in relation to a Female Offender Project in 2018/19 with most of this funding, £156k available to spend in 2019/20.

4.14 2019/20 is also expected to see the 'Divert' project become a reality offering an alternative way to engage with first time and low-level offenders, instead of sending them to court and prosecuting them.

- 4.15 In addition to the above the current plans expect that a recurring budget of circa £2.0m per annum is provided in this area across the life of the plan which is as per 2018/19.
- 4.16 Beyond these commissioned services the PCC continues to prioritise and support neighbourhood policing and will continue to provide the Force an additional £1.5m to support the delivery of neighbourhood policing with the specific objective of making our communities safer; helping them to be stronger.
- 4.17 In addition to this there is scope for the Force to invest a further £1m on a recurring basis to close the gap between the 'minimum' and 'required' resourcing models that they have developed. Plans will be worked up before this money is released.
- 4.18 The indicative budget for these areas are set out in the table below:

	Actual Budget	Actual Budget				
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
<b>Community Safety/Victims and Witness</b>	£000s	£000s	£000s	£000s	£000s	£000s
Community Safety Initiatives	986	982	1,146	1,002	1,002	1,003
Service Improvement and Development	1,250	1,450	2,430	2,900	3,050	3,200
Victims and Witnesses Services	1,009	1,508	1,864	1,164	1,172	1,178
<b>Total Planned Expenditure</b>	<b>3,245</b>	<b>3,939</b>	<b>5,440</b>	<b>5,065</b>	<b>5,225</b>	<b>5,381</b>

4.19 Corporate Services

Corporate Services include the costs of the PFI contracts, strategic contract management, asset management costs, treasury management and planning.

- 4.20 The areas of expenditure incorporated in this area and the forecasts for the life of the plan are included in the table below:

	Actual	Actual	Forecasts			
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
<b>Corporate Services</b>	£000s	£000s	£000s	£000s	£000s	£000s
Staff Pay	330	465	600	470	480	490
Non Pay Expenditure	100	95	115	100	100	100
PFI Action Stations	5,145	5,240	5,325	5,410	5,500	5,590
PFI Urday Nook	1,770	1,820	1,830	1,870	1,910	1,950
Asset Management	1,605	1,855	2,050	1,935	1,550	1,450
<b>Total Corporate Costs</b>	<b>8,950</b>	<b>9,475</b>	<b>9,920</b>	<b>9,785</b>	<b>9,540</b>	<b>9,580</b>
%age Change in Expenditure	1.1%	5.9%	4.7%	-1.4%	-2.5%	0.4%

- 4.21 Over £500k of cashable savings was delivered from this area over the 5 years to 2017/18. This enabled the PCC to focus resources on front line services with the vast majority of the savings coming from the decision made by the PCC to change the way that Capital is financed within the organisation and also the conscious decision to reduce the amount of debt the organisation has.

- 4.22 The asset management costs have however increased over the last couple of years, primarily due to the timing of the loans taken out to deliver the Community Safety Hub and the receipts of the Capital Receipts from the sale of the former Police HQ at Ladgate Lane. In this intervening period the Force is however benefitting from the significantly lower costs of running the new building in comparison to the former one.
- 4.23 Further savings will be difficult to deliver from this area however if the current plans are delivered then the savings from the asset management budgets will be realised once again and there is the opportunity to increase these further.

## **5. Police Force**

- 5.1 The vast majority of the funding available to the PCC will be provided to the Chief Constable, this provides the budgetary constraints in which the PCC expects the Force to work within, in delivering against the Police and Crime Plan.
- 5.2 The PCC tries to provide a stable financial platform for the Force to work to and within, despite the significant level of unknowns around various areas of future funding. The aim of this approach is to support and enable good strategic planning, decision making and ultimately service delivery by the Force.
- 5.3 Details of the Force's plans are provided on a separate report, which is also on today's agenda however a summary of the finances are included below:



	Budget 2017/18	Budget 2018/19	Budget 2019/20	Budget 2020/21	Budget 2021/22	Budget 2022/23
<b>Police Force Planned Expenditure</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Police Pay	64,740	64,043	67,662	68,652	69,672	71,491
Police Overtime	1,375	1,402	1,468	1,538	1,668	1,589
Police Community Support Officer Pay	4,255	4,360	4,055	4,180	4,280	4,365
Staff Pay	9,755	10,525	14,550	14,670	13,993	14,381
<b>Pay Total</b>	<b>80,125</b>	<b>80,330</b>	<b>87,735</b>	<b>89,040</b>	<b>89,613</b>	<b>91,826</b>
<b>Major Contracts</b>						
Custody and Medical Contract	2,523	2,466	2,491	2,541	2,591	2,641
Outsourcing Contract	17,139	17,900	18,490	17,500	16,500	16,850
<b>Major Contracts total</b>	<b>19,662</b>	<b>20,366</b>	<b>20,981</b>	<b>20,041</b>	<b>19,091</b>	<b>19,491</b>
<b>Non Pay Budgets</b>						
Other Pay and Training	380	756	744	759	776	789
Injury and Medical Police Pensions	2,435	2,787	2,993	3,093	3,193	3,293
Premises	3,620	3,662	3,501	3,577	3,655	3,733
Supplies and Services	7,035	7,455	7,534	7,634	7,641	7,642
Transport	1,576	1,456	1,471	1,481	1,491	1,501
External Support	2,587	2,958	3,257	3,461	3,461	3,461
<b>Non Pay Total</b>	<b>17,633</b>	<b>19,074</b>	<b>19,498</b>	<b>20,003</b>	<b>20,215</b>	<b>20,417</b>
<b>Total Planned Expenditure</b>	<b>117,420</b>	<b>119,770</b>	<b>128,215</b>	<b>129,085</b>	<b>128,920</b>	<b>131,735</b>
<b>%age Change in Expenditure</b>	<b>0.0%</b>	<b>2.0%</b>	<b>7.1%</b>	<b>0.7%</b>	<b>-0.1%</b>	<b>2.2%</b>

5.4 These plans are in line with the overall funding indications provided by the PCC to the Force and therefore enable the PCC to set out a stable, balanced financial plan for the next 4 years, based on the assumptions set out within this report.

5.5 The table in the section below shows the overall financial position and the forecast LTFP based on current assumptions and plans.

## 6. Overall Financial Summary

6.1 The table below shows the current projected position of the overall finances available to the PCC, however this is based on a significant number of assumptions, including that the Force can contain costs and deliver the level of services required within the financial constraints that were outlined above.

	Actual Budget	Actual Budget				
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
<b>Funding for Net Budget Requirement</b>	<b>(123,824)</b>	<b>(125,751)</b>	<b>(131,706)</b>	<b>(133,850)</b>	<b>(136,770)</b>	<b>(139,766)</b>
%age Change in Net Budgetary Requirement	-0.1%	1.6%	4.7%	1.6%	2.2%	2.2%
Specific Grants	(4,558)	(4,911)	(5,880)	(6,726)	(5,626)	(5,626)
Witness and Victims Funding	(659)	(1,246)	(1,411)	(654)	(667)	(680)
Partnership Income/Fees and Charges	(2,664)	(2,737)	(2,893)	(2,965)	(3,147)	(3,199)
<b>Total Core Funding</b>	<b>(131,705)</b>	<b>(134,644)</b>	<b>(141,890)</b>	<b>(144,195)</b>	<b>(146,210)</b>	<b>(149,270)</b>
Special Grant			(3,475)	(3,500)	0	0
<b>Total Overall Funding</b>	<b>(131,705)</b>	<b>(134,644)</b>	<b>(145,365)</b>	<b>(147,695)</b>	<b>(146,210)</b>	<b>(149,270)</b>
<b>Office of the PCC Planned Expenditure</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>Total Planned Expenditure</b>	<b>850</b>	<b>860</b>	<b>880</b>	<b>900</b>	<b>920</b>	<b>940</b>
<b>Community Safety/Victims and Witness</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Community Safety Initiatives	986	982	1,146	1,002	1,002	1,003
Service Improvement and Development	1,250	1,450	2,430	2,900	3,050	3,200
Victims and Witnesses Services	1,009	1,508	1,864	1,164	1,172	1,178
<b>Total Planned Expenditure</b>	<b>3,245</b>	<b>3,939</b>	<b>5,440</b>	<b>5,065</b>	<b>5,225</b>	<b>5,381</b>
<b>Corporate Services</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Staff Pay	330	465	600	470	480	490
Non Pay Expenditure	100	95	115	100	100	100
PFI Action Stations	5,145	5,240	5,325	5,410	5,500	5,590
PFI Urlay Nook	1,770	1,820	1,830	1,870	1,910	1,950
Asset Management	1,605	1,855	2,050	1,935	1,550	1,450
<b>Total Corporate Costs</b>	<b>8,950</b>	<b>9,475</b>	<b>9,920</b>	<b>9,785</b>	<b>9,540</b>	<b>9,580</b>
<b>Police Force Planned Expenditure</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>Pay</b>						
Police Pay	66,740	64,043	67,662	68,652	69,672	71,491
Police Overtime	1,375	1,402	1,468	1,538	1,668	1,589
Police Community Support Officer Pay	4,255	4,360	4,055	4,180	4,280	4,365
Staff Pay	9,755	10,525	14,550	14,670	13,993	14,381
<b>Pay Total</b>	<b>82,125</b>	<b>80,330</b>	<b>87,735</b>	<b>89,040</b>	<b>89,613</b>	<b>91,826</b>
<b>Major Contracts Total</b>	<b>19,662</b>	<b>20,366</b>	<b>20,981</b>	<b>20,041</b>	<b>19,091</b>	<b>19,491</b>
<b>Non-Pay Budgets</b>						
Other Pay and Training	380	756	744	759	776	789
Injury and Medical Police Pensions	2,435	2,787	2,993	3,093	3,193	3,293
Premises	3,620	3,662	3,501	3,577	3,655	3,733
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Transport	1,576	1,456	1,471	1,481	1,491	1,501
External Support	2,587	2,958	3,257	3,461	3,461	3,461
<b>Non-Pay Total</b>	<b>17,633</b>	<b>19,074</b>	<b>19,498</b>	<b>20,003</b>	<b>20,215</b>	<b>20,417</b>
<b>Total Planned Force Expenditure</b>	<b>119,420</b>	<b>119,770</b>	<b>128,215</b>	<b>129,085</b>	<b>128,920</b>	<b>131,735</b>
%age Change in Expenditure	0.0%	0.3%	7.1%	0.7%	-0.1%	2.2%
<b>(Surplus)/ Deficit</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Planned Transfers to/(from) General Fund	(2,000)	(950)	(950)	0	0	0
Contribution to Capital Programme	1,165	1,400	2,120	2,710	1,455	1,485
Planned Transfers to/(from) Earmarked Reserves	75	150	(260)	150	150	150
<b>Net (Surplus)/ Deficit After Reserves</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>
<b>General Reserves</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
General Fund Balance b/f	8,016	6,074	5,974	5,024	5,024	5,024
General Fund Movements	(2,000)	(950)	(950)	0	0	0
In Year General Fund movements	58	850	0	0	0	0
General Fund Balance c/f	<b>6,074</b>	<b>5,974</b>	<b>5,024</b>	<b>5,024</b>	<b>5,024</b>	<b>5,024</b>
<b>Employee Numbers (Average per year)</b>	<b>FTEs</b>	<b>FTEs</b>	<b>FTEs</b>	<b>FTEs</b>	<b>FTEs</b>	<b>FTEs</b>
Police Officers	1,280	1,236	1,239	1,239	1,231	1,231
PCSOs	148	147	131	131	131	131
Police Staff - Police Force	285	309	426	426	395	395
OPCC Staff	11	11	14	14	14	14
Corporate/Commisioning Staff	9	11	12	10	10	10

6.2 Based on the plans and assumption outlined within this report and some use of reserves, that are discussed later in the report and in more detail in the Robustness of Estimates and Adequacy of Reserves Report, then the organisation can demonstrate a balanced budget for the next 4 years.

- 6.3 It is however vital to keep in mind that there will be challenges to this balanced plan, there are a number of risks that could impact significantly on the currently forecasted balanced position and there are undoubtedly many things that the organisation will have to deal with, that are currently unknown. Therefore the constant search for savings and efficiencies will need to continue to provide future flexibility from a financial perspective.
- 6.4 As a result of the financial flexibility that the PCC has been afforded, around Precept, then the organisation is in a stronger financial position than was previously expected. This provides some initial scope to invest in replacing some of the previous reduced service capacity.
- 6.5 Significant Gap to 'Required' Staffing Model  
The Force have modelled, and set out, what they believe to be both the 'Minimum' and the 'Required' Staffing Model for the Force.
- 6.6 The additional precept flexibility has provided the finances to be able to attain this 'Minimum' model and this is factored into the Force's budget of £128.2m and assumes that a further £1.5m will continue to be provided by the PCC to invest in Neighbourhood Policing Resources.
- 6.7 The financial gap between this 'Minimum' and 'Required' model has been calculated to be £5m.
- 6.8 The decision by the PCC, on the back of the Business Case produced by the Force, to return the services currently provided by SopraSteria to the Force, in October 2020, provides the opportunity to close this gap.
- 6.9 The PCC can make a further £1m available to the Force in 2019/20 and beyond to further close this gap and the Force have been asked for plans to set out what the gap looks like from a resourcing perspective and then to develop a plan of how this should be best spent, what this will deliver in terms of improved outcomes and how this can be delivered.
- 6.10 The funding will be released as the additional resources are recruited.

## **7. Capital Financing and Expenditure**

- 7.1 The assets owned by the PCC are a vital platform for the delivery of the Police and Crime Plan, with the overall purpose of the capital plan to provide sufficient funding to renew the asset base of the organisation, informed by condition deficiency surveys, 'fit for purpose' reviews, equipment replacement programmes, business continuity requirements and invest to save expenditure. Plans have been drawn up and are being developed for capital investment which would aid the organisation in delivering against the Police and Crime Plan.
- 7.2 The most significant area of development and work over the planning period will be delivery against the Digital Strategy that has been developed between the Force and

SopraSteria. This will inform a significant area of work from a local perspective but also linking in to the significant work that is on-going on a National basis in this area.

- 7.3 The current plans see very little need for additional borrowing to fund the proposed capital programme however this should be seen against the back ground of significant loans that have been taken out over the last 2 years. The current level of borrowing that the PCC has is just over £31m and therefore the capacity to borrow significantly more should be avoided otherwise the planned reductions in Asset Management costs will not be delivered.
- 7.4 The borrowing that is indicated within the plan relates to a potential opportunity, with the current Estate, to release an expensive but relatively valuable building and replace it. Further details on this opportunity will be provided to the PCC.
- 7.5 Over the next 5/6 years over £16m of the loans that the PCC currently has will be due for repayment. Plans are in place to enable this to happen and this will return the overall level of borrowing to a more reasonable level and also help reduce the asset management costs in line with the revenue budget.
- 7.6 The PCC will have sufficient funds available to support the current plans of the Police Force over the current year and the next 4 years provided that resources can continue to be provided to the Capital programme from the revenue budget.
- 7.7 The required contributions to the Capital Plan are factored into the balanced revenue position and therefore the PCC has a fully balanced Capital Plan and Revenue Budget for the next 4 years based on current plans and assumptions.
- 7.8 It is important to recognise that there is no scope within the current plans for additional schemes that are currently not known about, including investment based on developments at a National Level. It will therefore be important to generate savings elsewhere to be able to invest further otherwise the need/want to invest further in this area will need to be at the expense of current plans.
- 7.9 The current Capital Plans, which will continue to be subject to review, development and refinement over the coming years, are set out below:

	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
<b>Future Funding Levels</b>	£000s	£000s	£000s	£000s	£000s
<b>Earmarked Reserve/Funding b/f</b>	<b>2,656</b>	<b>3,164</b>	<b>164</b>	<b>1,806</b>	<b>982</b>
Capital Grant	515	526	535	545	555
Contribution to/from Revenue	2,007	2,120	2,710	1,455	1,485
Capital Receipts (from Vehicle sales)	100	100	100	100	100
Capital Receipts (from Property sales)	2,542	0	5,259	2,988	3,109
New Prudential Borrowing	3,000	1,200	-3,109	-2,988	-3,109
<b>Projected In-year funding Available</b>	<b>8,163</b>	<b>3,946</b>	<b>5,495</b>	<b>2,100</b>	<b>2,140</b>
Schemes Carried Forward from previous year		811			
Digital Strategy		3,239	3,162	2,060	2,000
Estates Strategy		1,855	25	25	50
Fleet Replacement Programme		633	496	757	662
Other Schemes		407	171	82	25
<b>Total Capital Programme</b>	<b>7,656</b>	<b>6,945</b>	<b>3,854</b>	<b>2,924</b>	<b>2,737</b>
<b>Earmarked Capital Reserve/Funding c/f</b>	<b>3,164</b>	<b>164</b>	<b>1,806</b>	<b>982</b>	<b>384</b>

## 8. Reserves

- 8.1 As at the end of 2017/18 the PCC had Usable Reserves of £14.5m. The main reserves held at that point were for the following reasons:
- General Reserves - £6.1m
  - Capital Reserves - £2.7m
  - Pay Reserve - £1.7m
  - Collaboration Reserve - £0.9m
- 8.2 The PCC has a separate Reserves Strategy, which is include elsewhere on today's agenda, in line with the requirement of the Government, which sets out the details of all reserves, what they are held for and how they will be used in the future
- 8.3 The expected movements on all reserves held by the PCC will be kept under review in line with the development of the LTFP, current projections are included within the table below:

	Balance at 31 March 2018 £000	Transfers In 2018/19 £000	Transfers Out 2018/19 £000	Balance at 31 March 2019 £000	Transfers In 2019/20 £000	Transfers Out 2019/20 £000	Balance at 31 March 2020 £000	Transfers In 2020/21 £000	Transfers Out 2020/21 £000	Balance at 31 March 2021 £000	Transfers In 2021/22 £000	Transfers Out 2021/22 £000	Balance at 31 March 2022 £000
<b>Funding for projects &amp; programmes over the period of the current MIFP</b>													
Direct Revenue Funding of Capital	(1,669)	(2,007)	2,030	(1,646)	(2,120)	3,766	(0)	(2,710)	1,604	(1,106)	(1,455)	2,561	(0)
Community Safety Initiatives Fund	(322)		150	(172)		150	(22)		22	0		0	0
PCC Change Reserve	(50)			(50)		50	0			0			0
Commissioning Reserves	(366)		28	(339)		260	(79)			(79)			(79)
Road Safety Initiatives Fund	(658)		150	(508)		150	(358)		150	(208)		30	(179)
<b>Sub Total</b>	<b>(3,065)</b>	<b>(2,007)</b>	<b>2,358</b>	<b>(2,714)</b>	<b>(2,120)</b>	<b>4,376</b>	<b>(458)</b>	<b>(2,710)</b>	<b>1,776</b>	<b>(1,392)</b>	<b>(1,455)</b>	<b>2,591</b>	<b>(257)</b>
<b>Funding for projects &amp; programmes beyond the current MIFP</b>													
PFI Sinking Fund	(213)	(75)		(288)	(75)		(363)	(75)		(438)	(75)		(513)
Incentivisation Grant	(412)	(80)	80	(412)	(80)	80	(412)	(80)	80	(412)	(80)	80	(412)
Police Property Act Fund	(40)			(40)			(40)			(40)			(40)
<b>Sub Total</b>	<b>(665)</b>	<b>(155)</b>	<b>80</b>	<b>(740)</b>	<b>(155)</b>	<b>80</b>	<b>(815)</b>	<b>(155)</b>	<b>80</b>	<b>(890)</b>	<b>(155)</b>	<b>80</b>	<b>(965)</b>
<b>General Contingency</b>													
Legal/Insurance Fund	(500)	(633)		(1,133)	(75)		(1,208)	(75)		(1,283)	(75)		(1,358)
Injury Pension Reserve	(245)			(245)			(245)			(245)			(245)
Urjay Nook TTC	(81)			(81)			(81)			(81)			(81)
NERSOU	(45)			(45)			(45)			(45)			(45)
Collaboration Reserve	(942)			(942)			(942)			(942)			(942)
Pay Reserve	(1,700)		700	(1,000)			(1,000)			(1,000)			(1,000)
Revenue Grants Unapplied	(137)		109	(28)		28	(0)			(0)			(0)
<b>Sub Total</b>	<b>(3,649)</b>	<b>(633)</b>	<b>809</b>	<b>(3,473)</b>	<b>(75)</b>	<b>28</b>	<b>(3,520)</b>	<b>(75)</b>	<b>0</b>	<b>(3,595)</b>	<b>(75)</b>	<b>0</b>	<b>(3,670)</b>
				0			0			0			0
<b>Total Earmarked Reserves</b>	<b>(7,379)</b>	<b>(2,795)</b>	<b>3,247</b>	<b>(6,928)</b>	<b>(2,350)</b>	<b>4,484</b>	<b>(4,794)</b>	<b>(2,940)</b>	<b>1,856</b>	<b>(5,878)</b>	<b>(1,685)</b>	<b>2,671</b>	<b>(4,892)</b>
<b>General Reserves</b>	<b>(6,073)</b>	<b>(850)</b>	<b>950</b>	<b>(5,973)</b>	<b>0</b>	<b>950</b>	<b>(5,023)</b>	<b>0</b>	<b>0</b>	<b>(5,023)</b>	<b>0</b>	<b>0</b>	<b>(5,023)</b>
<b>Unapplied Capital Grants</b>	<b>(1,003)</b>	<b>(515)</b>		<b>(1,518)</b>	<b>(526)</b>	<b>1,879</b>	<b>(164)</b>	<b>(535)</b>		<b>(700)</b>	<b>(545)</b>	<b>263</b>	<b>(982)</b>
<b>Total Usable Reserves</b>	<b>(14,455)</b>			<b>(14,418)</b>			<b>(9,981)</b>			<b>(11,600)</b>			<b>(10,897)</b>

8.4 A full review of adequacy of reserves and the robustness of the assumptions within the LTFP is included within the Robustness of Estimates and Adequacy of Financial Reserves Report that is also on today's agenda.

## 9. Risks

9.1 The major risks and unknowns surrounding the figures presented here and discussed further in the Robustness of Estimates and Adequacy of Financial Reserves report, are:

- Pay Awards are higher than the assumptions within the plan
- Any differences between the future years' actual Government Grant settlements, including Legacy Council Tax Grant and the estimated figures.
- Variations in future years between the estimated tax base used and the actual declared tax base.
- That the public does not support the precept increases that are factored into the current plans
- Increasing costs of the employers Pension Contribution into the Police Pension Fund.
- Increasing costs of the employers Pension Contributions into the Local Government Pension Scheme when the scheme is actuarially reviewed in a years' time.
- Sensitivity of assumptions, including inflation and borrowing costs.
- The ability of the Force to manage within its allocated budget
- The ability and capacity to either absorb growth/cost pressures and/or deliver savings to enable expenditure in essential areas to continue.
- Ability to deliver the savings included within the plans within the timeframes set and also to the level needed whilst delivering the required levels of service.
- The significant gap between the 'Minimum' Resource requirement identified by the Force and the 'Required' Resource requirement and how this gap can be closed with the current financial constraints.







## **Report of the Chief Finance Officer for the Chief Constable to the Police and Crime Commissioner for Cleveland Police**

**20<sup>th</sup> February 2019**

### **Cleveland Police Long Term Financial Plan (LTFP) 2019/20 to 2022/23**

**Status: For Approval**

#### **Purpose of the Report**

The purpose of the Long Term Financial Plan (LTFP) is to demonstrate the Force's operational plan is affordable, financial stability can be maintained, and funding is targeted to those activities that best make our communities safer and stronger.

Accordingly, this report sets out the revenue and capital spending plans that underpin delivery of the Force's Towards 2020 strategy, the Transforming Cleveland Police Plan and the key objectives set out within the Police and Crime Plan.

It should be read in conjunction with the following reports prepared by the Police & Crime Commissioner's (PCC) Chief Financial Officer:

- Long Term Financial Plan 2019/20 to 2022/23 and Capital Plans 2019/20 to 2022/23
- Robustness of Estimates and Adequacy of Financial Reserves
- Capital Strategy

#### **Recommendation**

The Police & Crime Commissioner for Cleveland is requested to approve the revenue and capital budget proposal for 2019/20 and the Long Term Financial Plan (LTFP) for 2020/21 – 2022/23.

#### **Force Financial Strategy**

A stable financial position is a key enabler for the Force to help our communities become safer and stronger. The Long Term Financial Plan (LTFP) demonstrates our operational plan is affordable and supports longer term planning for sustainable service delivery.

Our financial strategy is to maintain financial stability and protect service provision through identifying sufficient savings to secure a four year balanced position in order to:

- Provide a high degree of certainty to operational commanders about the resources at their disposal in the short to medium term

Following the grant settlement in December 2018, although the financial pressures have eased, the Force will continue to review expenditure plans for future years so that funding can be redirected to areas of greatest need to ensure that the outcomes from available funding are optimised.

#### **Cleveland Police Strategic Vision**

The Force has a clear strategic direction that is set out in a number of key strategic documents; Towards 2020, Transforming Cleveland Police and the Police and Crime Plan. This clearly sets out the future shape of the organisation as being the development of cost effective:

- Local Policing
- Enabling Services

- Collaboration

These plans are underpinned by this Long Term Financial Plan.

A key priority for the Force has been the development of a sustainable service model that can effectively respond to threat, harm and risk and bring about safer and stronger communities.

This reshaping has been aligned to our Strategic Threat & Risk Assessment (STRA) and demand profile (including alternative approaches to dealing with or reducing demand) which directs focus into those areas of policing that require emphasis.

A number of significant work streams have been delivered or are a work in progress. These include:

- Implementation of the Local Policing reviews
- Implementation of the Strategic Intent proposals
- Implementation of the major and volume crime functions
- A collaborated major investigation function with North Yorkshire
- Extension of the collaborated police dogs service to include North Yorkshire
- Further development of North East Regional Special Operations Unit
- Implementation of the Deep Dive Rapid Improvement Plans
- The rationalisation of Management Structures
- Implementation of Workforce Modernisation
- Targeted reductions in non-pay expenditure
- Development of a 3 Force Legal Service
- Ongoing restructure of the policing model to a geographical policing model to better address demand and provide resilience.
- Return of our contracted out services from Sopra Steria
- Implementation of the Wellbeing agenda and a reduction in sickness levels
- Implementation of the Digital Strategy

These reforms have been necessary to deliver the grant cuts already suffered from CSRs 2010 and 2013 and have enabled the Force to review its future savings requirements. Robust financial management will have to continue to allow the Force time and space to re-evaluate new and changing demand and ensure that scarce resources are used to their best endeavours. These continue to include development of further collaborative opportunities through Evolve, North East Transformation, Innovation and Collaboration Programme (NETIC) and with Cleveland Fire Brigade.

## REVENUE

### Summary Position 2019/20 – 2022/23

The summary position is set out in the table below.

Income & Expenditure	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
Funding Allocation from PCC	(128,215)	(129,085)	(128,920)	(131,735)
Police Pay & Allowances	69,130	70,190	71,340	73,080
PCSO / Staff Pay & Allowances	18,605	18,850	18,273	18,746
Pay & Allowances Total	87,735	89,040	89,613	91,826
Non Pay Expenditure	40,480	40,045	39,307	39,909
Total Planned Expenditure	128,215	129,085	128,920	131,735

Planned Surplus / (Deficit)	0	0	0	0
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<b>Funded Establishment</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
		<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>
Core Funded Police Officers	1,181	1,183	1,183	1,225	1,225
Historic Investigation Unit	49	50	50	0	0
OPCC Neighbourhood Funded Police Officers	6	6	6	6	6
<b>Total Police Officer Establishment</b>	<b>1,236</b>	<b>1,239</b>	<b>1,239</b>	<b>1,231</b>	<b>1,231</b>
Core Funded PCSO's	132	116	116	116	116
OPCC Neighbourhood Funded PCSO's	15	15	15	15	15
<b>Total PCSO Establishment</b>	<b>147</b>	<b>131</b>	<b>131</b>	<b>131</b>	<b>131</b>
Core Funded Police Staff	256	366	366	366	366
Historic Investigation Unit	31	31	31	0	0
OPCC Neighbourhood Funded Police Staff	22	26	26	26	26
<b>Total Police Staff Establishment</b>	<b>309</b>	<b>423</b>	<b>423</b>	<b>392</b>	<b>392</b>
<b>Total Establishment</b>	<b>1,692</b>	<b>1,793</b>	<b>1,793</b>	<b>1,754</b>	<b>1,754</b>

Following CSR 2015 and the 'protection' of police service funding, the Force has worked with the PCC to agree a level of funding that will sustain our operating model over the lifetime of the plan.

Consequently, the Force is projecting a break-even position for each year of the plan. However, the financial plan is dependent upon continued robust financial management ensuring that all new initiatives and mandated changes can be absorbed within the given funding.

A more detailed analysis is set out at Appendix A

### **Allocated Funding**

The national and local funding positions are set out in the PCC's Chief Financial Officer's report 'The 2019/20 Precept Proposal'.

The headlines within the settlement provided the OPCC with further flexibility to increase Precept above the 1.99% cap. PCC's can now increase the level of Band D Police Precept by up to £24 per year in 2019-20. Nationally the Police Service could receive a further £970m which includes increases in grant to cover pension costs, counter terrorism, serious and organised crime as well as the flexibility to increase the precept.

It should be noted that the police settlement has not been adjusted to take in to account a new funding allocation formula. This has been delayed until the next CSR due in 2020. We did not include either a positive or negative financial impact on our future funding assumptions in regards to the funding formula and as such this delay has not impacted on our overall financial position.

The impact of the above has resulted in a better than expected Government Grant allocation, and coupled with the flexibility to increase precept income, has resulted in an increase in funding to the PCC in 2019/20 when compared with the forecasted February 2018 position.

The PCC is expected to receive £3.1m more grant income in 2019/20 than in 2018/19. However, the Home Office have increased the amount payable in regards to police pension contributions by £3.3m.

Taking these factors into consideration the increase in grant income will therefore only allow the Force to continue to fund the current level of service delivery.

With the flexibility offered to the PCC's to further increase the precept by £12 a year this will provide the OPCC with a further income stream. This increase will allow the Force and the OPCC to firstly maintain current services and then provide some scope to invest in Community Policing.

## **Pay Budgets**

The paybill is the largest single element of the overall cost base at 68% of the budget<sup>1</sup>. It should be recognised that there is no right or wrong workforce size or mix. Through its programme of review over the last four years, the Force has continued to reshape the workforce to deliver an effective blend of skill sets and experience to meet an ever-changing demand profile.

Pay budgets have been set on the Force's operating model as it currently stands. It should be noted that further changes to the workforce over the next 12 months with further collaborative opportunities will be explored so the overall numbers could flex based on future developments and demand profiles.

Points to note are:

- Pay awards have been assumed at 2% per annum.
- Provision has also been made for the Apprenticeship levy which commenced in 2017/18. This will cost the Force approximately £300-350k per annum.
- It is assumed that recruitment plans will maintain the workforce numbers at the planned levels.

### Police Officers

Funding in this plan provides for 1,233 FTE officers in the first two years of the plan. This is consistent with the numbers currently planned for in the Force's operating model and funded secondments. The PCC holds funding for an additional 6 FTE roles that have been agreed to enhance neighbourhood policing. This funding will be drawn down immediately as all 6 officers are already in post. This brings the overall establishment for police officers to 1,239 FTE.

Post 2020/21 it has been assumed for financial analysis only that the Historic Investigations grant will cease reducing our overall police officer establishment to 1231 FTE a reduction of 8 officers.

Provision of £640k per annum has been made for 8 medical retirements in each year of the plan. Medical retirements have been occurring at approximately 8-10 per annum so this may prove to be insufficient. However, each retirement incurs a one-off payment of twice the average pensionable salary of the individual (approximately

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<sup>1</sup> Note: In 2010/11 the force entered a strategic partnership with Steria UK and 470 police staff posts were TUPE transferred, consequently the paybill represents a smaller proportion of overall expenditure than in other Forces.

£80k) to the pension fund. Consequently, providing for more retirements would have a significant impact on any savings that would have to be made.

#### Police Community Support Officers (PCSOs)

Funding has been provided for 116 FTE PCSOs over the lifetime of the plan. This is consistent with the numbers currently planned for in the Force's operating model. The PCC holds funding for an additional 15 FTE roles that have been agreed to enhance neighbourhood policing. This funding will be drawn down immediately as all 15 PCSO's are already in post. It brings the establishment for PCSOs to 131 FTE.

#### Police Staff

Funding has been provided for:

- 366 FTE Core Police Staff roles for the life of the plan
- 31 FTE HIU Police Staff roles for the first two years of the plan

The PCC holds funding for an additional 26 FTE roles that have been agreed to enhance neighbourhood policing. This funding will be called down immediately as all of the roles will be filled by the start of the financial year. This brings the establishment for staff in 2019/20 to 423 FTE.

#### Pension Schemes

##### *Police Officer Scheme*

It should be noted that the pensions discount rate used to calculate the employer's contributions for public sector pensions has changed from 3.0% to 2.4%. This has increased the level of spend by £3.3m per annum. The Home Office have provided a police pension grant of £1.3m a shortfall of £2.0m. This will be absorbed within the overall funding from the OPCC.

##### *Police Staff (including PCSOs) Pension Scheme*

The triennial revaluation of the Local Government Pension Scheme (LGPS) which took place in March 2017 has forecast a shortfall of £1.3m. This will be made good by an increase in the employers' contribution rate of 1% per annum, rising from 14.6% in 2018/19 to 15.6% by 2019/20.

The impact of this in 2019/20 is £235k. This includes the impact of the revised rates on the Sopra Steria charge.

#### **Non Pay Budgets**

An overall inflation uplift of 2.0% has been provided each year. This will be allocated to specific budget heads in accordance with need e.g. business rates; contractual uplifts; Utilities, National ICT charges & Injury pensions etc and have been costed at £1,036k in 2019/20.

All non-pay budgets have been reviewed and adjusted in respect of savings or unavoidable pressures.

The revenue consequences of the capital schemes are also factored into the budget.

#### **Significant Pressures within the LTFP**

Although the PCC has provided a stable financial platform, the impact of unavoidable cost pressures means that all expenditure will have to be scrutinised and only approved if it fits within the overall plan. The plan provides for the following significant pressures:

- Contracted Out National Insurance £1,600k from 2016/17
- Apprenticeship Levy £350k from 2017/18
- Provision for medical retirements £640k from 2018/19

- Increase in LGPS employers contributions £115k from 2018/19
- Collaboration: NETIC £72K from 2018/19
- Increase in Police pension employers contributions £3,300k from 2019/20
- Increased cost associated with the Finger Print Bureau £60k from 2019/20
- Additional National initiatives incurred 18/19 – on-going £158K from 2019/20
- Service Improvements eg: Taser Training; Call handling £151K from 2019/20
- Service Pressure on forensic costs £75K from 2019/20
- Improvements to Specials & Volunteers programme £45K from 2019/20
- Revenue costs of Capital Investment : Digital Agenda £45K from 2019/20

## Savings Programme

In order to offset the significant pressures above the Force continues to review its Non-pay budgets and has identified the following savings which are incorporated in the LTFP:-

- Custody Contact Savings £45K from 2019/20
- Closure of Ladgate Lane HQ £465k from 2019/20
- Reduction in Change & Contingency £140 from 2019/20
- Reduction in Legal Fees £165 from 2019/20
- Other Non-pay savings £45K from 2019/20

The additional funding provided by the PCC over the next four years and the savings identified within the LTFP has enabled the Force to absorb the increases in its cost base ie: pay inflation, general inflation and the extra pressures listed above and provide a balanced LTFP.

The balanced LTFP has also been possible due to the major re-working of the Force's operating model throughout 2016-2018 which has already been discussed earlier in the report.

## Future Plans

With the flexibility offered to the PCC's to increase the precept by £12 a year in addition to the £12 increase per annum already in the 2018/19 funding assumption this will provide the OPCC with a further income stream in 2019/20 onwards.

However, this flexibility offered to the OPCC's has several caveats attached to it. These include areas such as identifiable procurement savings, the recruitment of detectives and digital reforms as detailed in the ministerial statement dated 24<sup>th</sup> January 2019 and will have to be managed and reported on throughout the financial year.

Due to this increased income the OPCC has requested plans on how the Force can use this money to reduce the threat, harm and risk to the residents of Cleveland.

The Force's transformational strategy has modelled both the minimal and optimal establishment required for service delivery. The funding assumptions within this plan only deliver that of the minimal establishment. The financial gap between the minimal and optimal models of delivery is approximately £5m per annum. Over the life of the plan the Chief Constable in conjunction with the OPCC will work up costed plans with the aim of working towards the optimal model.

## Risks in the Plan

The major risk attached to this plan is the continuation of the Historic Investigations that are currently partly funded through a special grant from the Home Office. This grant has to be resubmitted on an annual basis and is not guaranteed.

Failure to secure the funding would result in a funding shortfall of approximately £2m. Should the funding cease the Force would at its earliest opportunity need to review its establishment and non-pay expenditure. To reflect this risk the associated Police and Staff establishments have been reduced from years 2020/21 onwards.

Other risks are detailed at Appendix C.

## CAPITAL

Operational assets are a vital platform for the delivery of effective policing services. The proposals put forward in the capital plan are those necessary to refresh and enhance the asset base and are set out in Appendix B and summarised in the table below.

<b>CAPITAL PLAN 2019/20 - 2022/23</b>				
	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Facilities Schemes	1935	25	25	50
Equipment Replacement	347	171	82	25
ICT Schemes	3930	3162	2060	2000
Other Schemes	100	0	0	0
Fleet Replacement	633	496	757	662
<b>TOTAL CAPITAL SCHEMES</b>	<b>6945</b>	<b>3854</b>	<b>2924</b>	<b>2737</b>

The proposals are informed by condition deficiency surveys, 'fit for purpose' reviews, equipment replacement programmes and mandatory requirements. The revenue consequences of the capital proposals are factored into the revenue budgets.

### Facilities Schemes

The strategic goal for police estate is to create an effective and efficient estate that reduces cost and environmental impact and facilitates flexible working. The Estates Blueprint sets out a clear plan to drive better performance from our estate, accelerate savings, facilitate collaborative working and deliver capital receipts.

The main focus of the facilities programme for 2019/20 is the potential purchase of additional office accommodation.

### Equipment Replacement

A significant effort has been put into ensuring the completeness of both revenue and capital rolling equipment replacement programmes to:

- Ensure that funding is available when necessary
- Avoid spikes in expenditure by smoothing the replacement profile
- Inform the procurement plan to ensure timely ordering & receipt of equipment
- To inform prioritisation and decision making

### ICT Schemes

The ICT programme comprises refresh, upgrade and development schemes. The plan incorporates all known ICT requirements including the purchase of a new ERP system, workforce agility, the digital first programme and the National Identity Access Management (NAIM) scheme.

### Fleet Replacement

The Cleveland Fleet is made up of approximately 330 vehicles. The capital replacement plan is set out in the table below.

Fleet Replacement				
	2019/20	2020/21	2021/22	2022/23
Number of Vehicle's to be Replaced	19	17	40	28

The strategic goal for the fleet is to deliver an effective and efficient fleet that matches vehicle provision to operational demands, minimises cost and environmental impact and facilitates flexible working.

## Implications

### Finance

There are no financial implications other than those mentioned above.

### Diversity & Equality

There are no diversity or equality issues arising from this report.

### Human Rights Act

There are no Human Rights Act implications arising from this report.

### Sustainability

This report is part of the process to establish sustainable annual and long term financial plans to underpin sustainable service delivery and maintain prudent financial management.

### Risk

A risk assessment of the financial proposals is set out under Appendix C.

## Conclusion

Although many items will change over the next four years, the assumptions in this LTFFP, collectively provide for a stable financial position for the Force and, therefore, provides assurance that the strategic plans and our core priorities of prevention, protection and intervention are both affordable and achievable.

Lee Freeman  
Interim Chief Constable  
20<sup>th</sup> February 2019



## APPENDIX A

	Budget 2019/20 £000's	Budget 2020/21 £000's	Budget 2021/22 £000's	Budget 2022/23 £000's
Police Pay & Allowances	69,130	70,190	71,340	73,080
Staff Pay & Allowances	14,550	14,670	13,993	14,381
PCSO Pay & Allowances	4,055	4,180	4,280	4,365
<b>Pay &amp; Allowances Total</b>	<b>87,735</b>	<b>89,040</b>	<b>89,613</b>	<b>91,826</b>
<b>Non Pay Expenditure</b>				
Steria Charges	18,490	17,500	16,500	16,850
Premises	3,501	3,577	3,655	3,733
Custody	2,491	2,541	2,591	2,641
Police Pensions	3,017	3,117	3,217	3,317
Transport	1,471	1,481	1,491	1,501
External Support	1,975	2,179	2,179	2,179
Insurance	1,099	1,042	1,040	1,040
Change & Contingency	355	522	522	522
Communications	894	894	894	894
National IT Charges	975	975	975	975
Computing	831	831	831	831
Forensics	892	892	892	892
Professional Fees	778	778	778	778
External Training Seminars etc	753	768	785	798
Other Equipment & Furniture	843	833	842	843
Other	456	456	456	456
National Police Air Service	352	352	352	352
Maintenance Agreements	462	462	462	462
Uniform	326	326	326	326
Surgeons & Medical Costs	286	286	286	286
Office Equipment & Expenses	199	199	199	199
Redundancy Costs	25	25	25	25
Agency Staff Costs	10	10	10	10
<b>Non Pay Expenditure Total</b>	<b>40,480</b>	<b>40,045</b>	<b>39,307</b>	<b>39,909</b>
<b>Grand Total</b>	<b>128,215</b>	<b>129,085</b>	<b>128,920</b>	<b>131,735</b>

**Appendix B**

<b>CAPITAL PLAN 2019/20 - 2022/23</b>	2019/20	2020/21	2021/22	2022/23
<b>Facilities Schemes</b>	£000	£000	£000	£000
Emergency lighting & Fire alarms	20	0	0	50
Car park refurbishments	10	0	0	0
Proposed new building for office accomodation	1750	0	0	0
LDC window replacement scheme	25	25	25	0
Billingham Police station Rewire	50	0	0	0
Force Rewire Programme (C/Fwd)	80	0	0	0
	<b>1935</b>	<b>25</b>	<b>25</b>	<b>50</b>
<b>Equipment Replacement</b>				
NERSOU TSU	25	25	25	25
ANPR	225	25	0	0
Legal Evolve capital	0	50	0	0
TASER	57	71	57	0
Investigative Analytical Software (C/Fwd)	40	0	0	0
	<b>347</b>	<b>171</b>	<b>82</b>	<b>25</b>
<b>ICT Schemes</b>				
Power BI Professional Desktop Client/Report Server	31	0	0	0
ERP discovery, procurement & mobilisation	750	750	0	0
Workforce agility phase 1	0	0	0	0
Workforce agility phase 2	500	0	0	0
Workforce agility phase 3	500	0	0	0
Digital evidence management (DEMS)	400	0	0	0
Digital evidence transfer (DETS)	50	0	0	0
Digital First	100	0	0	0
Digital interview recording (DIR)	0	0	0	0
Single on-line home	50	0	0	0
National identity access management (NAIM)	100	0	0	0
National law enforcement database programme (NLEDP)	50	0	0	0
Windows 10, Office 365 and Cloud services	0	700	0	0
Command and control	0	200	0	0
PNN replacement	0	30	0	0
DFU infrastructure review	0	500	0	0
Data warehouse	0	0	0	0
Body worn video	0	200	0	0
Archive and retention	0	0	0	0
Home Office biometrics	0	150	0	0
ESMCP	0	0	2000	0
Digital strategy	0	0	0	2000
Resource for ERP, Oracle, Microsoft, DEMS, DETS & Storm	708	632	60	0
Digital Interview Recording Equipment (C/Fwd)	500	0	0	0
ESMCP (C/Fwd)	63	0	0	0
ACESO Replacement (C/Fwd)	103	0	0	0
Windows Server Upgrade (C/Fwd)	25	0	0	0
	<b>3930</b>	<b>3162</b>	<b>2060</b>	<b>2000</b>
<b>Other Schemes</b>				
Replacement DCS system	100	0	0	0
<b>Fleet Replacement</b>				
Fleet replacement Programme	597	496	757	662
NERSOU vehicles	36	0	0	0
	<b>633</b>	<b>496</b>	<b>757</b>	<b>662</b>
<b>TOTAL CAPITAL SCHEMES</b>	<b>6945</b>	<b>3854</b>	<b>2924</b>	<b>2737</b>

**Appendix C**

## LTFP 2019/20 to 2022/23 – Assessment of Risks

Risk	Detail	Mitigation
Changes to the future funding formulas for Police Forces.	<p>The Policing Minister is committed to reforming the police funding formula and will bring forward proposals for public consultation.</p> <p>The current assumptions do not factor in any adverse impact as a result of a revised formula.</p> <p>Based on what is currently known of the proposals, this is a prudent assumption, however, it does present a potential risk.</p> <p>Current indications are that no changes will be made before the next CSR which is due in 2020.</p>	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
Future year's funding is lower than forecast.	The police settlement was for a one year period. This presents a potential risk if funding was to change dramatically as a result of external issues such as Brexit.	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
Pay awards are higher than those assumed in the LTFP.	<p>The LTFP assumes that pay will rise by 2% from September 2019.</p> <p>A movement of 1% would have an impact on pay and contracts of approximately £1.1m over a full financial year.</p>	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
A higher than forecast level of costly major incidents.	The number and cost of major incidents in any one year is unpredictable.	<p>There is sufficient flexibility in the plan to absorb some additional costs depending on the magnitude and the time of year the issue becomes known.</p> <p>The Joint CNYMIT has introduced additional resilience into the system.</p> <p>The PCC may absorb any additional costs in total or part through the use of reserves or other income.</p>
The continued acceleration of Police Officer and PCSO leavers above the planned profile outstripping our ability to recruit.	Pay budgets have been set based on assumptions in respect of officers and staff leaving and additional recruits being brought in. Should the number of leavers outstrip our ability to recruit this could result in capacity gaps and	Should a capacity gap emerge, service levels will be delivered through targeted overtime and the continued employment of police staff investigators along with a further recruitment of transferee Police Officers.

Risk	Detail	Mitigation
	generate a material underspending.	
National mandation.	In recent years there has been national mandation of systems e.g. Pentip, resulting in unplanned costs to the Force.	<p>There is sufficient flexibility in the plan to absorb some additional costs depending on the magnitude and the time of year the issue becomes known.</p> <p>The PCC may absorb any additional costs in total or part through the use of reserves or other income.</p>
Police Pension scheme 2015.	Test case on new pension scheme with risk due to Gender/Race inequality. The case is in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Police Pension Regulations 2015. The Court of Appeal ruled in December 2018 that the Government's changes to pensions with regard to judges and firefighters were discriminatory on the grounds of age. These cases were brought due to changes to public sector pensions in 2015, which also affected other public sector schemes including the police pension scheme. This ruling could have significant implications however costs and funding implications are as yet unknown.	Cleveland has contributed to the NPCC legal defence of this case. Cleveland has at present 93 claims from Police Officers No further detail is available on the impact to the Chief Constable but should there be a financial impact, more radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
Employment Tribunals	An earmarked reserve has been set up to cover the cost of implementation.	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
Allard V the Chief Constable of Cornwall	A recent court determination in the case of Allard v the Chief Constable of Cornwall in respect of historic on-call payments for specific staff groups has the potential to create a significant financial pressure for forces nationally.	More radical options will be developed including further reductions in officer, PCSO and staff numbers, inter-force collaboration and blue light collaboration.
Historic Case Review	Further work will take place in regards to historic case reviews following the establishment of the	More radical options will be developed including further reductions in officers, PCSO and

<b>Risk</b>	<b>Detail</b>	<b>Mitigation</b>
	Cold Case Unit within the CNYMIT.	staff numbers and the use of further inter-force collaborations.





## Report of the Chief Finance Officer to the PCC to the Police and Crime Commissioner for Cleveland

20<sup>th</sup> February 2019

Status: For Decision

### Capital Strategy 2019/20

#### 1. Purpose

- 1.1 The Prudential Code for Capital Finance in Local Authorities (2017) requires that a capital strategy is required to be in place that sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.
- 1.2 The capital strategy is required to be updated annually and approved by the PCC and should be read in conjunction with the Treasury Management Policy and the Annual Investment Strategy.

#### 2. Recommendations

The PCC is asked to:

- 2.1 Approve the Capital Strategy set out at Appendix 1.

#### 3 Reasons

- 3.1 The Capital Strategy provides a clear set of objectives and a framework within statutory legislation that requires new capital expenditure to be evaluated to ensure that all new capital investment is targeted at meeting the priorities that the PCC has set out in the Police and Crime Plan.
- 3.2 The strategy sets the framework for all aspects of the PCC's capital and investment expenditure. This includes planning, outcomes, prioritisation, management, funding and repayment. This strategy has direct links to the other plans of the PCC such as

the Estates Strategy and Digital Policing Strategy and forms a key part of the Long Term Financial Plan (LTFP) and the Treasury Management Policy. This strategy should be read in conjunction with the Treasury Management Policy and Annual Investment Strategy.

- 3.3 The operation of all of these strategies and plans is underpinned by the Code of Corporate Governance which includes the Financial Regulations and Standing Orders.

## **4 Implications**

### **4.1 Finance**

There are no financial implications arising from this report that is not included above.

### **4.2 Diversity & Equal Opportunities**

There are no diversity or equal opportunity implications arising from this report.

### **4.3 Sustainability**

This report is part of the process to establish sustainable short, medium and long term financial plans and maintain prudential financial management.

### **4.4 Risk**

The Capital Strategy seeks to minimise the risks of the PCC in relation to capital expenditure and financing. The strategy seeks to demonstrate that the PCC takes capital expenditure and investment decisions in line with his Police and Crime Plan and properly takes account of stewardship, value for money, prudence, sustainability and affordability.

## **5 Conclusion**

This report seeks approval from the PCC for the Capital Strategy in order to comply with the CIPFA Prudential Code for Capital Finance 2017.

Michael Porter  
Chief Finance Officer for the PCC



## **CAPITAL STRATEGY**

### **INTRODUCTION**

The Capital strategy is part of the Police and Crime Commissioner (PCC)'s Corporate Planning Strategy. It provides a mechanism by which the capital investment and financing decisions can be aligned over the short, medium and long term.

The strategy sets the framework for all aspects of the PCC's capital and investment expenditure. This includes planning, outcomes, prioritisation, management, funding and repayment. This strategy has direct links to the other plans of the PCC such as the Estates Strategy and Digital Policing Strategy and forms a key part of the Long Term Financial Plan (LTFP) and the Treasury Management Policy. This strategy should be read in conjunction with the Treasury Management Policy and Annual Investment Strategy.

The operation of all of these strategies and plans is underpinned by the Code of Corporate Governance which includes the Financial Regulations and Standing Orders.

The strategy will be updated and approved annually by the PCC.

### **OBJECTIVES**

The key aims of the Capital Strategy are;

- To provide a clear set of objectives and a framework within statutory legislation that requires new capital expenditure to be evaluated to ensure that all new capital investment is targeted at meeting the priorities that the PCC has set out in the Police and Crime Plan.
- Set out how the PCC identifies, programmes and prioritises capital requirements and proposals.
- Consider the options available for funding of capital expenditure and how resources may be maximised to generate investment in the area and to determine an affordable and sustainable funding policy framework whilst minimising the revenue implications of such schemes.
- Identify the resources available for capital investment over the planning period of the LTFP.

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- Establish effective arrangements for the management of capital expenditure including the assessment of project outcomes, budget profiling, deliverability, value for money and security of investments.
- Deliver projects that focus on delivering the long term benefits of Policing as detailed in the Police and Crime Plan and which are;
  1. Investing in our Police
  2. A better deal for victims and witnesses
  3. Tackling re-offending
  4. Working together to make Cleveland safer
  5. Securing the future of our communities

### **GOVERNANCE OF THE CAPITAL PROGRAMME**

Governance processes are in place and follow Financial Regulations and Standing Orders to ensure that the resources are allocated optimally and deliver value for money.

The capital programme is determined from consultation with stakeholders and in parallel with the revenue budget planning process and the development of the LTFP. These processes include:

- The approval of the Capital Strategy, Capital Plan, Annual Investment Strategy and Treasury Management Policy by the PCC at the PCC Scrutiny, Delivery and Performance Meeting.
- These policies, plans and strategies being published on the PCC website as Decision Notices.
- Scrutiny of the Decision Notices by the Police and Crime Panel.

Any new capital project is subject to thorough evaluation which includes:

- A business case, resources and finance request submitted to the Corporate Services Team which includes the details of the scheme, estimated costs and income, staffing implications, benefits of change and other impacts. These will be appraised by the Business case triage team, Senior Officers team and recommendations made to the Executive Board.
- Subject to the proposal being approved by the Executive Board, the business case will be reported to the PCC and a decision notice signed and published by the PCC.

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- Monthly monitoring reports will be submitted to the PCC CFO and reported quarterly to the PCC at the Scrutiny, Delivery and Performance Meeting. These reports will show spending to date and compare projected expenditure to approved budgets. The reports will identify the changes to the capital programme to reflect:
  - New resource allocations
  - Slippage in programme delivery
  - Programmes reduced or removed
  - Virements between schemes and programmes to maximise delivery
  - Revisions to spending profiles and funding to ensure ongoing revenue costs are minimised.

Depending on the size of the project, a programme board may be set up with the key stakeholders to manage and take the project forward and to identify any risks which may affect the project or the organisation. Any risks deemed high for the organisation will be taken to the Risk and Governance Board. All projects are required to follow contract standing order requirements and procurement processes.

### **CAPITAL PRIORITIES**

The capital strategy recognises that the financial resources that are available to the PCC are constrained by the current economic and political climate. The PCC must therefore seek ways to ensure that investment decisions meet the objectives of the Police and Crime Plan and are within the limited resources available. The strategy is required to deliver policing into the 21<sup>st</sup> century in line with the PCC's visions and the capital plan is built on the emerging themes arising from the Force's Estates, Digital Policing and Fleet strategies.

The assets owned by the PCC are vital for the delivery of the Police and Crime Plan and the capital priorities are for sufficient funding to renew the asset base of the organisation, informed by condition deficiency surveys, 'fit for purpose' reviews, equipment replacement programmes, business continuity requirements and invest to save decisions.

### **FUNDING APPROACH**

The PCC's capital investment falls within and is required to comply with the 'Prudential Code for Capital Finance in Local Authorities 2017' (the Code). Under the Code, the PCC has greater discretion over the funding of capital expenditure especially with the freedom to determine, within the regulatory framework of the Code, the level of borrowing they wish to undertake to deliver the capital plans and programme.

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There are a range of potential funding sources which can be generated locally either by the PCC or in partnership with others. The PCC continues to seek new levels of investment to match against the capital programme and may include additional receipts from land sales, developer opportunities and joint funding opportunities.

This strategy which informs the LTFP is intended to maximise the financial resources available for investment in service provision and improvement within the framework of the LTFP whilst ensuring that each business case has a robust self-sustaining financial model that delivers on the wider outcome of the strategy.

The main sources of capital funding are:

1. Central government
  - a. Specific grant allocations- grants are allocated in relation to specific programmes or projects and the PCC will seek to maximise this to address priority needs in policing
  - b. The PCC will continue to bid for future resource allocations as they become available.
2. Internal Balances
  - a. Interest rates over recent years have remained low and therefore external borrowing has been prudent but interest rates are likely to increase in future years. Internal borrowing can be used to support the capital programme when the financial position of the PCC allows for this.
3. Capital receipts
  - a. Receipts that have been obtained from the sale of property, plant and equipment and are available only for the funding of capital schemes. There is no de minimis level for capital receipts.
4. Reserves
  - a. Any funding that has been allocated in a specific year but is not required until future years will be carried forward in an earmarked reserve. These reserves will vary from year to year depending upon the level of funding available and the timing of projects.
  - b. Reserves can be created from most funding sources (Direct Revenue Funding, Grants, Receipts and Insurance receipts and reserves).
  - c. Working with other public sector bodies and partners may bring additional opportunities for securing additional funding and this should be undertaken whenever possible.
  - d.
5. Investment
  - a. The PCC will continue to work with the investors to utilise redundant assets and vacant land to bring them to a useful economic purpose. Capital receipts from the disposal of assets represent a finite source of funding and it is

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important that a planned and structured manner of disposals is created to support the priorities of the PCC. Cash receipts from the disposal of surplus assets are to be used to fund new capital investment or to offset future debt or transitional costs.

- b. The PCC will continue to work with other partners and agencies to consider projects that are mutually beneficial to the development of policing in Cleveland.
- c. Various mechanisms provide opportunities to enhance the PCC's investment potential with support and contributions from other third parties and local strategic partners. They may range from commissioning/facilitating others to develop services in policing.

#### 6. Revenue

- a. Capital expenditure may be funded directly from revenue (Direct Revenue Funding). In addition to specific revenue funds that have previously been set aside as earmarked reserves, capital expenditure may be funded by specific revenue budget provision. However, given the pressures on the PCC's revenue budget, the extent to which this may be utilised is limited. The approved deminimis limit for expenditure to be capitalised is £5,000.

### **BORROWING AND LEASING**

Under the Prudential Code, the PCC has discretion to undertake borrowing to fund capital projects with the full cost of the borrowing being funded from project returns or from revenue.

This discretion is subject to the PCC complying with the Code's framework which requires any such borrowing to be prudent, affordable and sustainable. Prudential borrowing does provide an option for funding additional capital projects but this has to be funded each year from within the revenue budget or from generating additional ongoing longer term income streams.

The PCC will test the Prudential Indicators annually as part of the LTFP process and report upon the progress when setting the future Prudential Indicators.

Given the pressure on the PCC's revenue budget, prudent use has been made of this discretion in cases where there was clear financial benefit. Where prudential borrowing is proposed, a full and robust business case is required to be approved by the PCC which includes option appraisal and detailed financing options.

The PCC utilises Finance leases for land where appropriate and Operational leases are only used for the lease of photocopiers. Leases are accounted for under IFRS16 and the financial implications are included in the relevant capital and revenue plans.

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Existing PFI schemes are accounted for under IFRIC12 and all finance implications are included in the relevant capital programme.

### **BALANCED PORTFOLIO APPROACH**

Resources will be allocated to programmes based upon asset values to manage the long term yield and revenue implications. Capital receipts will be focussed on those assets with a short term life span and the unsupported borrowing on long term assets. Surplus receipts will be assigned to finance the capital programme in the most economic way to ensure the minimum impact on the revenue budget in relation to the Minimum Revenue Provision (MRP) as informed by the LTFP.

All capital schemes need to reflect the full development purchase costs including property taxes and fees. Business cases will include all lifetime costs (both revenue and capital) and income proposals. Where necessary, specialist advice is to be taken, particularly around VAT and other taxes.

The capital programme will include financing detail and an appropriate cash flow.

Debt funding can range from short term cash flow support through to longer term funding linked to assets. Interest rates will be sought which are the best available and are required to reflect the appropriate legislation.

### **MINIMUM REVENUE PROVISION (MRP) POLICY**

Minimum Revenue Provision (MRP) is the annual revenue provision that authorities which are not debt free, have to make in respect of their debts and credit liabilities. MRP aims to provide transparency as to the cost to the PCC of taking on new borrowing. The requirement to make MRP has existed since 1990.

Under the Local Authorities (Capital Financing and Accounting) (Amendment) (England) regulations 2007, the current arrangements for calculating MRP as specified in the 2003 regulations have been superseded. The 2007 regulations now place a duty on local authorities to make a MRP which is considered to be prudent, with the responsibility being placed on the PCC to approve the Annual MRP strategy.

The 2007 regulations require that an annual MRP strategy be adopted by the PCC prior to the start of the financial year to which it applies. The PCC can change the method of calculating the MRP on an annual basis in line with guidance. Once a method has been approved for a particular year, any assets purchased through borrowing that year must continue to have MRP charged in the same way.

For borrowing at 1 April 2008 and supported borrowing after this date, the regulatory method is to be applied. This is calculated at 4% of the total Capital Financing Requirement

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less Adjustment A. For unsupported borrowing after 1 April 2008, the depreciation method is applied. The MRP for each asset acquired through unsupported borrowing is calculated by taking the unsupported borrowing on the asset less the MRP already made against the asset less the residual value of the asset and then divided by the remaining useful life of the asset.

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Item 2g

**Report of the Chief Financial Officer for the Police and Crime Commissioner (PCC) to the PCC  
20<sup>th</sup> February 2019**

**Status: For Decision**

**Treasury Management and Prudential Indicators 2019/20 to 2022/2023**

**1. Purpose**

To comply with the CIPFA Prudential Code of Practice, the PCC is required to set a range of Prudential Indicators for the financial year 2019/20. The code states that Prudential Indicators for Treasury Management should be considered together with the Annual Investment Strategy for 2019/20. The content of this report addresses this requirement.

**2. Recommendations**

The PCC is asked to:

- 2.1 Approve the Prudential Indicators, set out in 3.5, 3.6 and 3.7.
- 2.2 Approve the Annual Investment Strategy set out at Appendix A.
- 2.3 Approve the Treasury Management Policy in Appendix C.
- 2.4 Note that future investments will be placed in line with the strategy in Appendix A.

**3. Reasons**

**3.1 Prudential Indicators**

The Prudential Code requires authorities (including the PCC) to self-regulate the affordability, prudence and sustainability of their capital expenditure and borrowing plans, by setting estimates and limits, and by publishing actuals, for a range of Prudential Indicators.

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The key objectives of the Prudential Code are to ensure that:

- Capital expenditure plans are affordable, prudent and sustainable.
- Treasury Management decisions are taken in accordance with professional good practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable.

3.2 The Code imposes on authorities clear governance procedures for setting and revising of Prudential Indicators, and describes the matters to which an authority will have regard when doing so. This is designed to deliver accountability in taking capital financing, borrowing and Treasury Management decisions. A fundamental provision of the Prudential Code is that over the medium term net borrowing will only be for a capital purpose.

3.3 Under the Code, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to the code. Under the code, the PCC is required to set a range of Prudential Indicators for the financial year 2019/20.

3.4 The code states that Prudential Indicators for Treasury Management should be considered together with the Annual Investment Strategy.

### 3.5 Affordability

The following indicators are required to assess the affordability of the capital investment plans. They provide an indication of the impact of the capital investment plans on overall PCC finances. The PCC is requested to approve the following:

#### 3.5.1 Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital against the net budgetary requirement.

In 2019/20 the actual cost in this area is expected to be £6,422k; however of this, £4,469k is attributable to our PFI's (£2,886k of interest charges and £1,583k of MRP). These PFI charges are essentially covered by separate PFI Grants totalling £4,106k.

	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
<b>Financing Costs to Net Revenue Streams</b>	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Minimum Revenue Provision (MRP)	2,262	2,585	2,205	2,333	2,310
Interest Payable on Borrowing	3,986	3,887	3,449	3,179	2,938
Interest Receivable	(45)	(50)	(50)	(50)	(50)
<b>Financing Costs</b>	<b>6,204</b>	<b>6,422</b>	<b>5,604</b>	<b>5,462</b>	<b>5,198</b>
<b>Net Revenue Stream</b>	<b>125,751</b>	<b>131,706</b>	<b>133,850</b>	<b>136,770</b>	<b>139,766</b>
Ratio %	4.9%	4.9%	4.2%	4.0%	3.7%

Given that funding for PFI's is dealt with by a separate specific grant then the underlying level of funding that will be set aside to service borrowing (excluding PFI's) in 2019/20 will be £1,953k or 1.5% of our Net Revenue Stream, as per the table below:

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Financing Costs to Net Revenue Streams (Excluding PFI)	2018/19	2019/20	2020/21	2021/22	2022/23
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Minimum Revenue Provision (MRP)	757	1,001	1,008	862	832
Interest Payable on Borrowing	980	1,001	880	640	561
Interest Receivable	(45)	(50)	(50)	(50)	(50)
<b>Financing Costs</b>	<b>1,693</b>	<b>1,953</b>	<b>1,838</b>	<b>1,452</b>	<b>1,343</b>
<b>Net Revenue Stream</b>	<b>125,751</b>	<b>131,706</b>	<b>133,850</b>	<b>136,770</b>	<b>139,766</b>
Ratio %	1.3%	1.5%	1.4%	1.1%	1.0%

3.5.2 *Incremental Impact of Capital Investment Decisions on Band D Council Tax*

This indicator shows the incremental impact of the additional capital expenditure that is planned in the current programme on the Band D council tax.

Council Tax	2018/19	2019/20	2020/21	2021/22	2022/23
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Band D Impact	1.38	1.49	(0.64)	(1.66)	(0.91)
Band D increase year on year	12.00	24.00	12.00	5.23	5.33
%age of precept increase funding capital costs	11.5%	6.2%	-5.4%	-31.8%	-17.1%

The PCC has approved a £24 increase in the Band D Precept for 2019/20. This increase will be used primarily to deliver service improvements and also to increase staffing numbers. Of this increase, 6.2% will be funding increases over the amount that was set aside for capital purposes in 2018/19. The Community Safety Hub is now operational and the remaining capital receipts from the sale of Ladgate Lane are set aside for debt repayments to return to 2016/17 levels by 2023/24.

3.6 Prudence

The table below summarises the Capital Programme that is also for approval, plus amendments for PFI expenditure as dictated by International Accounting Standards.

Capital Expenditure	2018/19	2019/20	2020/21	2021/22	2022/23
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Capital Expenditure	7,656	6,945	3,854	2,924	2,737
PFI Capital Expenditure	270	355	1,102	904	1,105
<b>Total Capital Expenditure</b>	<b>7,926</b>	<b>7,300</b>	<b>4,956</b>	<b>3,828</b>	<b>3,842</b>
<b>Funded By:</b>					
Gross Borrowing	3,000	1,200	0	0	0
PFI Borrowing	0	0	0	0	0
Other Capital Resources	4,926	6,100	4,956	3,828	3,842
%age of Expenditure funded by Borrowing	37.9%	16.4%	0.0%	0.0%	0.0%

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The level of borrowing needed to maintain the current plans of the organisation had reduced by around £10m from 2012/13 until 2016/17 as we rationalised this area, reduced the level of the budget that would need to be set aside to fund this debt, used the cash received from the sale of parts of the Ladgate Lane land sale and ran cash balances down to as low a level as possible.

The level of loans has however increased significantly in 2017/18 and further again in 2018/19 as the build of the new Community Safety Hub (CSH) was financed in advance of the capital receipts from the sale of the Ladgate Lane site and to enable continued investment in other capital schemes. The CSH will ultimately be funded fully from capital receipts and it is important that the level of loans within the organisation is returned to this lower level as the LTFP progresses.

### 3.6.1 The PCC's Borrowing Need (The Capital Financing Requirement)

The Capital Financing Requirement (CFR) measures the PCC's underlying need to borrow for Capital purposes and ensures that borrowing is only undertaken to fund capital assets and not support revenue expenditure.

The PCC is asked to approve the following CFR projections:

Capital Financing Requirement	2018/19	2019/20	2020/21	2021/22	2022/23
	Estimate £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
<b>Opening Capital Financing Requirement</b>	<b>15,278</b>	<b>14,676</b>	<b>14,098</b>	<b>10,435</b>	<b>7,039</b>
Supported Borrowing	0	0	0	0	0
MRP on Supported Borrowing	(602)	(578)	(554)	(408)	(272)
Voluntary MRP	0	0	(3,109)	(2,988)	(3,109)
<b>Closing Capital Financing Requirement</b>	<b>14,676</b>	<b>14,098</b>	<b>10,435</b>	<b>7,039</b>	<b>3,658</b>
Unsupported borrowing to fund Capital Expenditure	27,682	28,882	28,882	28,882	28,882
PFI Borrowing	34,978	34,978	34,978	34,978	34,978
<b>Total CFR Base on which MRP is calculated</b>	<b>77,336</b>	<b>77,958</b>	<b>74,295</b>	<b>70,899</b>	<b>67,518</b>
MRP on Unsupported Borrowing- cumulative	(5,475)	(5,899)	(6,353)	(6,807)	(7,260)
MRP on PFI (cumulative)	(12,127)	(13,711)	(14,907)	(16,378)	(17,856)
<b>Total CFR Base for borrowing purposes</b>	<b>59,733</b>	<b>58,348</b>	<b>53,035</b>	<b>47,714</b>	<b>42,401</b>

The Gross Borrowing requirement detailed in the table in 3.6 above decreases the CFR. The PCC is required to make a statutory charge to revenue for the repayment of supported debt (the Minimum Revenue Provision) and this reduces the CFR.

### 3.6.2 Limits to Borrowing Activity

Within the Prudential indicators there are a number of indicators to ensure that the PCC operates its activities within well defined limits.

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For the first of these, the PCC needs to ensure that its total borrowing net of any investments does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, to take advantage of market opportunities and to build in budget uncertainty.

Net Borrowing and the Capital Financing Requirement (CFR)	2018/19	2019/20	2020/21	2021/22	2022/23
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Borrowing	31,064	29,492	26,220	22,220	19,220
PFI Borrowing	23,237	21,654	20,457	18,986	17,508
Investments	0	(2,000)	(2,000)	(2,000)	(2,000)
<b>Net Borrowing</b>	<b>54,301</b>	<b>49,146</b>	<b>44,677</b>	<b>39,206</b>	<b>34,728</b>
<b>Total CFR Base for borrowing purposes</b>	<b>59,733</b>	<b>58,348</b>	<b>56,144</b>	<b>53,811</b>	<b>51,607</b>

The projected forecasts detailed in the table above show that there is still some margin between the Net Borrowing and the CFR and therefore the PCC will be well within the limits required.

3.6.3 A further two prudential indicators control or anticipate the overall level of borrowing. These are:

- The **Authorised Limit** which represents the limit beyond which borrowing is prohibited and needs to be set and revised by the PCC, borrowing beyond this limit would be ultra vires. The provision for temporary borrowing allows for any additional potential borrowing that might result from the cash flow timings.
- The **Operational Boundary** which is based on the probable external debt during the course of the year. It includes scope for borrowing for revenue purposes that may be required in the short term during the year, if for instance a large grant payment was delayed.

The PCC is asked to approve the following limits:

Authorised Limit for External Debt	2018/19	2019/20	2020/21	2021/22	2022/23
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Borrowing	31,064	29,492	26,220	22,220	19,220
PFI Borrowing	23,237	21,654	20,457	18,986	17,508
Provision for Temporary Borrowing	7,000	7,000	7,000	7,000	7,000
	<b>61,301</b>	<b>58,146</b>	<b>53,677</b>	<b>48,206</b>	<b>43,728</b>
Operational Boundary for External Debt	2018/19	2019/20	2020/21	2021/22	2022/23
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Borrowing	31,064	29,492	26,220	22,220	19,220
PFI Borrowing	23,237	21,654	20,457	18,986	17,508
Provision for Temporary Borrowing	5,000	5,000	5,000	5,000	5,000
	<b>59,301</b>	<b>56,146</b>	<b>51,677</b>	<b>46,206</b>	<b>41,728</b>

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3.7 Treasury Management Indicators

The purpose of these is to contain the activity of the Treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the PCC's overall financial position. The PCC is asked to approve the indicators below:

3.7.1 Upper Limits on Borrowing

This indicator identifies a maximum level of borrowing that can be made at Fixed and Variable interest rates.

<b>Borrowing</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	Estimate	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%
Upper Limit on Fixed Interest Rate Exposures	100	100	100	100	100
Upper Limit of Variable Rate Exposures	25	25	25	25	25

This means between 75% and 100% of our borrowing will be at rates fixed until the loan is repayable, while no more than 25% will be at variable rates so liable to change at short notice.

3.7.2 Upper Limits on Investments

This indicator identifies a maximum level of investments that can be made at Fixed and Variable interest rates.

<b>Investments</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	Estimate	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%
Upper Limit on Fixed Interest Rate Exposures	100	100	100	100	100
Upper Limit of Variable Rate Exposures	20	70	70	70	70

This means that up to 100% of our investments will be at rates fixed until the investment matures, while no more than 70% will be at variable rates which may liable to change at short notice from 2019/20 onwards. The variable rate investments are for very short term investment only and are for on call investments. This represents no increase in risk as the variable risk investments can be recalled immediately if interest rates change.

3.7.3 Maturity Structure of Borrowing

These gross limits are set to reduce the PCC's exposure to large fixed rate sums falling due for re-financing within a short timeframe. Upper and lower limits are required which the PCC is asked to approve.

Maturity Structure of Debt	<b>2018/19</b>		<b>2019/20</b>		<b>2020/21</b>		<b>2021/22</b>		<b>2022/23</b>	
	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0%	50%	0%	50%	0%	50%	0%	50%	0%	50%
Over 12 months and under 2 years	0%	50%	0%	50%	0%	50%	0%	50%	0%	50%
Over 2 years and under 5 years	0%	50%	0%	50%	0%	50%	0%	50%	0%	50%
Over 5 years and under 10 years	0%	50%	0%	85%	0%	85%	0%	85%	0%	85%
Over 10 years	0%	50%	0%	100%	0%	100%	0%	100%	0%	100%

3.7.4 Upper Limit for Sums Invested for a Period of over 364 days

<b>Principal Sums Invested &gt; 1yr</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Maturity Profile	2,000	2,000	2,000	2,000	2,000

This indicator sets a limit on the level of investments that can be made for more than 364 days. The PCC is asked to approve that we do not invest more than £2m for a period of greater than 1 year.

3.8 Annual Investment Strategy

The proposed Annual Investment Strategy for 2019/20 is attached at Appendix A. This includes the criteria for inclusion on the Counterparty List and also how this is split between Specified and Non-specified Counterparties.

3.9 Returns on Investments

While returns on investments are of secondary importance to the security of the sums invested, it is still important to consider the potential impact of approving the Investment Strategy put forward. The limited number of counterparties on our list potentially restricts the returns, in the form of interest receivable, which the PCC can make.

3.10 Given the current low level of interest rates, the Bank of England Base rate is currently 0.75% and rose to this level in August 2018. Prior to this, the base rate had been at 0.5% or below for almost 9 years hence the impact for return on investments continues to be relatively small. The budget set for interest receivable in 2019/20 is £50k.

3.11 Counterparty Limits

As per the strategy in Appendix A, limits for specified counterparties are:

- The maximum investment with any counterparty is £10 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £15 million.

3.12 For non-specified counterparties these are:

- The maximum investment with any counterparty is £10 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £15 million.

**4. Implications**4.1 Finance

There are no financial implications arising from this report that is not included above.

4.2 Diversity & Equal Opportunities

There are no issues arising from this report to bring to the PCC's attention.

4.3 Human Rights Act

There are no Human Rights Act implications arising from this report.

4.4 Sustainability

This report is part of the process to establish sustainable annual and medium term financial plans and maintain prudent financial management.

4.5 Risk

The investment strategy put forward today seeks to minimise the risks of the PCC while ensuring that the cash balances of the PCC are managed in line with proper practice and to ensure funds are available to make payments at the correct time.

**5. Conclusions**

5.1 To comply with the CIPFA Prudential Code of Practice the PCC is required to set a range of Prudential Indicators for the financial year 2019/20.

5.2 The CIPFA code does not set benchmark indicators. Each organisation must use its judgement when setting indicators.

5.3 Based on the indicators proposed above, the revenue budget, capital programme and associated financing are within prudent limits.

5.4 A prudent Investment Strategy has been put forward for approval that seeks to firstly secure the money being invested before secondly looking at rates of return.

Michael Porter  
CFO for the PCC



**PCC for Cleveland Annual Investment Strategy**

The PCC will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

The main investment priorities are:

- The security of capital; and
- The liquidity of its investments.

The PCC for Cleveland also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

The borrowing of monies purely to invest or lend to others and make a return is not lawful and the PCC for Cleveland will not engage in such activity.

The guidance on Local Government Investments sets out a range of investments which can be used and these are listed as either "specified" or "non-specified" investment categories.

In practice it is not intended that the PCC for Cleveland should depart significantly from the existing procedures, which have proven to be robust.

The guidance recognises that there has been much debate about the reliance placed by local authorities on counter parties' credit ratings. Credit ratings are an important source of information but it is important to realise that they do have limitations. Authorities are advised to have regard to the ratings issued by the three main agencies and to make their decisions on the basis of the lowest rating. Ratings should be kept under review and 'ratings watch' notices acted upon.

Credit ratings should not be relied upon in isolation to identify counterparties, but should be considered alongside generally available market information. Other sources of information should be reviewed by authorities. These include the quality financial press, market data, information on government support for banks and the credit ratings of that government support.

A PCC should define what it means by a high or strong credit rating in order that its treasury management strategy is clear and its approach to risk is transparent.

Although the guidance definition of Non-Specified Investments is "one not meeting the definition of a Specified Investment", the PCC is required to identify which categories of investments are identified as prudent to use and the limits on any such investment either individually or in total. It is because some organisations do not subscribe to credit rating agencies that they have to be included as Non-Specified Investments, rather than any concern over their creditworthiness.

### **Limits and Definition of Specified Investments**

- (a) The investment is made with the UK Government or a Local Authority (as defined in the Local Government Act 2003).
- (b) The investment is made with a Money Market Fund which, at the time the investment is made, has been awarded the highest credit rating, (AAA), by a credit rating agency.
- (c) The investment is made with the PCC's own bank, currently NatWest.
- (d) The investment is made with a Nationalised Bank or Building Society
- (e) The investment is made with a Bank or Building Society that is part owned by the UK Government.

Where officers become aware of a revision of a body's rating the body should be removed from the list of Specified Investments. The PCC currently has no method of knowing about changes in ratings and has organised the Specified and Non-Specified split to avoid subscribing to one of the companies supplying monthly ratings, which would be expensive.

All Specified Investments must be denominated in sterling and must be one where the PCC may require it to be repaid or redeemed within 12 months of the date on which the investment is made. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The minimum % of the total of all investments which must be Specified Investments, at the time the investment is made, is 5%.
- The maximum investment with any one counterparty is £10 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £15 million.

### **Limits and Definition of Non-Specified Investments**

The investment is made with one of the bodies listed in Appendix B "Non Specified Investments", or the investment is for a period of one year or longer.

All Non-Specified Investments must be denominated in sterling. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The maximum investment with any one counterparty is £10 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £15 million
- The maximum % of the total of all investments for a period of one year or longer, at the time the investment is made, is 10%.

**SPECIFIED INVESTMENTS**

Aberdeen Standard  
Aberdeen Liquidity  
National Westminster Bank  
The Royal Bank of Scotland

**NON-SPECIFIED INVESTMENTS**

Bank of Scotland  
Barclays  
Clydesdale Bank  
The Co-operative Bank  
HSBC Bank  
Lloyds Bank  
Nationwide Building Society  
Santander UK  
Yorkshire Building Society  
Coventry Building Society  
Skipton Building Society  
Leeds Building Society  
Principality Building Society  
West Bromwich Building Society  
Newcastle Building Society  
Nottingham Building Society  
Cumberland Building Society

**Criteria for Inclusion on Investment Counterparty List**

- UK Clearing Banks and their wholly owned subsidiaries. Nationalised Banks and Nationalised Building Societies.
- UK Local Authorities, Police and Crime Commissioners and nationalised industries.
- The UK Government.
- Building Societies with Group Assets greater than £2bn

**TREASURY MANAGEMENT POLICY**

**(To be adopted by the Police and Crime Commissioner for Cleveland)**

The Police and Crime Commissioner for Cleveland (PCC) adopts as part of its Financial Regulations the following four clauses of the CIPFA Code of Practice for Treasury Management and the Treasury Policy Statement as set out below. When considering the contents of this document it should be remembered that the responsibility for Treasury Management **must always** stay with the PCC and cannot be passed to an external party.

**CLAUSE 1**

The PCC will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement (see Appendix 1), stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable treasury management practices (TMPs)(see Appendix 2), setting out the manner in which the PCC will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in the Code, subject only to amendment where necessary to reflect the particular circumstances of the PCC. Such amendments will not result in the PCC materially deviating from the Code's key principles.

**CLAUSE 2**

The PCC will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

**CLAUSE 3**

The PCC retains the responsibility for the implementation and regular monitoring of its treasury management policies and practices, and delegates the execution and administration of treasury management decisions to the Chief Financial Officer of the Office of the Police and Crime Commissioner (OPCC), who will act in accordance with the PCC's policy statement and TMPs.

**CLAUSE 4**

The PCC nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

**Appendix 1**

**THE TREASURY MANAGEMENT POLICY STATEMENT (see Clause 1)**

The treasury management policy statement defines the policies and objectives of the PCC's treasury management activities:

1. The PCC defines its treasury management activities as:

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

2. The PCC regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the PCC, and any financial instruments entered into to manage these risks.

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

4. The PCC's specific borrowing objective is to achieve the lowest level of interest paid on debt as prudently possible, while at the same time minimising the potential volatility of the average rate of interest.

5. The PCC's specific investment objective is to achieve an overall return on total deposits above the seven day notice London Interbank Bid Rate (LIBID) – the rate at which a bank will bid to borrow money in the London money market – with the minimum risk of capital loss.

## **Appendix 2**

### **THE TREASURY MANAGEMENT PRACTICES (TMPs) and INDICATORS**

#### **INDICATORS**

There are 4 specific treasury management Prudential indicators. The PCC must set these annually and they must be approved by the PCC prior to the start of the financial year. Their purpose is to restrict the activity of the Treasury function to within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. They are:

- Upper Limits on Variable Interest Rate Exposure
- Upper Limits on Fixed Interest Rate Exposure
- Maturity Structures of Borrowing
- Total Principle Funds invested for greater than 364 days

#### **PRACTICES**

There are 12 TMPs specified in the Code and all public sector organisations are expected to include those that are relevant to their Treasury Management powers and the scope of their activities as part of their detailed operational procedures. They cover the following:

- TMP1 – Risk Management
- TMP2 – Performance Management
- TMP3 – Decision-making and analysis
- TMP4 – Approved Instruments, methods and techniques
- TMP5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements
- TMP6 – Reporting requirements and management information arrangements
- TMP7 – Budgeting, accounting and audit arrangements
- TMP8 – Cash and Cash Flow management
- TMP9 – Money Laundering
- TMP10 – Training and Qualifications
- TMP11 – Use of External Service Providers
- TMP12 – Corporate Governance

#### **GUIDANCE ON INVESTMENTS**

The PCC must produce an Investment Strategy, which must be approved by the PCC, prior to the start of the financial year. It may be revised during the year, but must be approved again.

The strategy must consider the investment policy in terms of **Security – Liquidity – Yield** and must also define the approach to the use of both “specified” and “non-specified” investments.

## NOT PROTECTIVELY MARKED

Specified Investments are those that offer high security and liquidity and include investments with the UK Government and other local authorities and must be for less than one year and made in sterling.

The Strategy should deal in more detail with non-specified investments, identify the types of such investments, set a limit on the amounts held in them at any time in the year, and have guidelines for making decisions on such investments.

NOT PROTECTIVELY MARKED

NOT PROTECTIVELY MARKED

NOT PROTECTIVELY MARKED





## Report of the Chief Finance Officer to the PCC to the Police and Crime Commissioner for Cleveland

20<sup>th</sup> February 2019

Status: For Decision

### Minimum Revenue Provision 2019/20

#### 1. Purpose

- 1.1 Minimum Revenue Provision (MRP) is the annual revenue provision that authorities have to make in respect of their debts and credit liabilities. The requirement to make MRP has existed since 1990.
- 1.2 A report is necessary to seek approval from the PCC as to the annual MRP strategy.
- 1.3 The MRP strategy complements the wider financial picture which aims to provide transparency on the cost to the PCC of taking on new borrowing, therefore linking into the PCC's prudential indicators and the overall management of the PCC's assets.

#### 2. Recommendations

The PCC is asked to approve:

- 2.2 The MRP Strategy for 2019/20, which involves no change from the 2018/19 strategy. Specifically that being:
  - Option 1 ("Regulatory Method") be used to calculate the MRP on existing borrowing (before the 1<sup>st</sup> April 2008) and any future supported borrowing (after 1<sup>st</sup> April 2008).
  - Option 4 ("Depreciation Method") be used to calculate the MRP in the case of any future unsupported borrowing (after the 1<sup>st</sup> April 2008).

### **3 Reasons**

- 3.1 Minimum Revenue Provision is the annual revenue provision that authorities, which are not debt free, have to make in respect of their debts and credit liabilities. MRP aims to provide transparency as to the cost to the PCC of taking on new borrowing. The requirement to make MRP has existed since 1990.
- 3.2 Under the Local Authorities (Capital Financing and Accounting) (Amendment) (England) Regulations 2007, the current arrangements for calculating the MRP as specified in the 2003 Regulations have been superseded. The 2007 Regulations now place a general duty on local authorities to make a Minimum Revenue Provision which is considered to be prudent, with the responsibility being placed upon the PCC to approve an Annual MRP Strategy each year.
- 3.3 The 2007 Regulations require that an Annual MRP Strategy be adopted by the PCC prior to the start of the coming financial year. The PCC can change the method of calculating MRP on an annual basis (subject to the constraints set out below). Once a method has been approved for a particular year, any assets purchased through borrowing that year must continue to have MRP charged in the same way (that is, the PCC cannot change the method of calculating MRP on individual assets).
- 3.4 Options Available  
Four options are outlined within the 2007 Regulations for authority's to follow as to the calculation of MRP, however there are certain factors which predetermine the option the PCC must adhere to, depending on the timing of the borrowing (that is before or after the 1<sup>st</sup> April 2008) and whether the borrowing is supported or unsupported:
- 3.4.1 Option 1 ("Regulatory Method") and Option 2 ("Capital Financing Requirement (CFR) Method") can only be used to calculate the MRP in the following circumstances:
- Existing borrowing against capital expenditure that was incurred before the 1<sup>st</sup> April 2008 (regardless of whether the borrowing was supported or unsupported).
  - Supported borrowing incurred after the 1<sup>st</sup> April 2008.
- 3.4.2 Option 3 ("Asset Life Method") and Option 4 ("Depreciation Method") can only be used to calculate the MRP for new schemes that require the PCC to take on unsupported borrowing after the 1<sup>st</sup> April 2008.

Appendix 1 provides a glossary of some of the terms used in the paper and calculations. Appendix 2 shows how the MRP figure is calculated under each of the options discussed above.

- 3.4.3 To minimise the impact on revenue the PCC is asked to approve:
- Option 1 (“Regulatory Method”) be used to calculate the MRP on existing borrowing (before the 1<sup>st</sup> April 2008) and any future supported borrowing (after 1<sup>st</sup> April 2008)
  - Option 4 (“Depreciation Method”) be used to calculate the MRP in the case of any future unsupported borrowing (after the 1<sup>st</sup> April 2008)

## **4 Implications**

### **4.1 Finance**

The financial implications of this Strategy are factored into the Long Term Financial Plan.

### **4.2 Diversity & Equal Opportunities**

There are no diversity or equal opportunity implications arising from this report.

### **4.3 Sustainability**

The MRP Strategy aims to provide transparency as to the cost to the PCC of taking on new borrowing and links with the Prudential Indicators to determine the sustainability and affordability of all unsupported borrowing undertaken.

### **4.4 Risk**

Insufficient MRP provided for in the PCC’s budget. Any new borrowing that the PCC takes out will incur a MRP charge in the revenue budget which will specifically relate to the asset acquired or enhanced. This ‘charge’ will need to be built into the revenue budget to ensure the PCC has sufficient resources available to meet the liability.

## **5 Conclusion**

This report seeks approval from the PCC on the treatment and calculation of MRP, and the Strategy that is used by the PCC and therefore ensures that the PCC is in line with the Local Authority Regulations.

Michael Porter  
Chief Finance Officer for the PCC

### Glossary of Terms

**Adjustment A** – Technical accounting adjustment set out in regulations to ensure consistency with previous Capital Regulations

**Capital Financing Requirement (CFR)** – Amount needed to finance the Capital Programme from previous years (borrowing) and current year (capital receipts, grants etc.)

**Prudential Indicators** – In order to assess the PCC's ability to afford borrowing when making capital financing decisions and to ensure that prudent levels are set. These indicators show the projected and actual position together with limits which can only be exceeded with approval and in exceptional circumstances

**Supported Borrowing** – Borrowing for which the Government will provide support through the Revenue Support Grant to meet the cost of borrowing for capital projects

**Unsupported (Prudential) Borrowing** – Borrowing under the Prudential Code for which the Government will not provide support through the Revenue Support Grant to meet the cost of borrowing for capital projects.

**Supported Borrowing (after 1<sup>st</sup> April 2008) and any Previous Borrowings**

**Option 1 (“Regulatory Method”)** – This is the method currently used by the Authority, as set out in the 2003 Regulations. Option 1 is calculated as 4% of the total Capital Financing Requirement for all borrowing, less Adjustment A:

$$4\% (CFR - AA)$$

Where:

- CFR = Capital Financing Requirement
- AA = Adjustment A

**Option 2 (“Capital Financing Requirement (CFR) Method”)** – this uses the same formula as Option 1 but does not take account of Adjustment A.

$$4\% (CFR)$$

Where:

- CFR = Capital Financing Requirement

Once calculated Adjustment A remains a fixed variable within the calculation; in the case of Cleveland Police Authority Adjustment A is £1,997,000 meaning that the MRP calculated under Option 1 will always be £79,880 (4% of £1,997,000) less compared to Option 2.

**Unsupported Borrowing (after 1<sup>st</sup> April 2008)**

**Option 3 (“Asset Life Method”)** – The MRP for each asset acquired through unsupported borrowing is calculated using the following formulae:

$$\frac{A - B}{C}$$

Where:

- A = Capital expenditure (unsupported borrowing) on asset
- B = Total MRP already made against the asset
- C = Remaining useful life of the asset

**Option 4 (“Depreciation Method”)** - The MRP for each asset acquired through unsupported borrowing is calculated using the following formulae:

$$\frac{A - B - D}{C}$$

Where:

- A = Capital expenditure (unsupported borrowing) on asset
- B = Total MRP already made against the asset
- C = Remaining useful life of the asset
- D = Residual Value of the Asset

The only difference between the two methods of calculating the MRP is that there is recognition in option 4 that the asset will still be worth ‘something’ after its useful life has expired.





## Scrutiny, Delivery & Performance Meeting

20 February 2019

### Audit and Inspection Updates – National Child Protection Post Inspection Review

#### Purpose of the Report

1. Updates from Audits and Inspections are scheduled into the PCC's scrutiny programme. In July 2018 Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) carried out a post inspection review of National Child Protection and the report was published in November 2018.

#### Background

2. At the Scrutiny, Delivery and Performance meeting on 25 October 2017, the PCC received details about the HMICFRS report published on 21 September 2017. HMICFRS inspectors found that the force was committed to protecting children and this was reflected in the police and crime plan. This strong commitment was seen in the chief officer team and the PCC. However, HMICFRS discovered some weaknesses in the force's approach to child protection. As a result of the inspection the PCC sought, in the first instance, an assurance that the areas for concern that were highlighted for immediate action had been dealt with and then information on the Force's plans to address the recommendations.
3. It was noted at that meeting the inspection had been largely positive but that there were a number of recommendations for the Force to implement. Work was on-going to consider good practice in other forces as a way of addressing some of the issues.
4. The PCC considered the action plan that had been produced at the time and was satisfied that significant effort had been made and was assured that any immediate concerns, as highlighted within the inspection report, had been dealt with swiftly.
5. In April 2018, prior to the re-inspection, the PCC sought information on progress with the action plan and at that meeting was told that the force was working on Public Protection Notices (PPN) and Occurrence Enquiry Log (OEL)s, although this work was dependent on the NICHE upgrade, which had only taken place in March 18. It was anticipated that this would bring improvements in the way of a consistent oversight. A training plan for staff would be in place by the time of the inspection.
6. Following the re-inspection HMICFRS were still concerned about how the Force responded to children who go missing from care or from home.

## **Information Required**

7. The PCC would therefore like details on the following:
  - a. An update on progress with the original action plan to include details of the new initiatives implemented by the Force and an analysis of their impact.
  - b. Details of the effect of the NICHE upgrade on PPNs and the OEL.
  - c. An outline of the areas for improvement as detailed in the re-inspection, to include details of the Force's plans to address those areas.

## **Actions Arising**

8. That the information is noted and further details provided if necessary.