

Executive Board

27 January 2022

Revenue & Capital Budgets 2022/23

Medium Term Financial Plan 2022/23 to 2025/26

Revenue & Capital Budgets 2021/22

Joint Report of PCC Chief Finance Officer and Chief Constable



Introduction

- The purpose of this report is to enable the Police and Crime Commissioner (PCC) to:
 - Set the revenue budget and issue the policing precept for 2022/23,
 - Approve the capital budget for 2022/23,
 - Approve the revised revenue & capital budgets for 2021/22,
 - Approve the treasury management policy and strategy for 2022/23,
 - Approve the medium-term financial plan,
 - Consider the robustness of the estimates and adequacy of reserves and financial resilience.
- The covering report is divided into the following sections:
 - Key Points
 - Grant Settlement
 - 2022/23 Council Tax requirement
 - Reserves
 - Key risks
 - Cost control
 - Capital Budget
 - Medium term Financial Plan 2022/23 to 2025/26
- The Treasury Management Prudential Code is included in appendix 2
- The Medium-Term Financial Plan is attached as appendix 3
- Appendix 4 gives details of the robustness of the estimates and financial resilience.

Key Points

- The financial settlement for 2022/23 (received December 2021), the key points being :
 - a further increase in Government funding to Police Forces to compensate for the uplift in Police Officer numbers.
 - Increased funding to cover costs associated with the introduction of the national care levy employer's national insurance contributions
 - Indicative grant levels for 2023/24 and 2024/25
 - Precept flexibility of £10 per year at Band D for 2022/23, 2023/24 and 2024/25.
- The Medium-Term Financial Plan in Appendix 3 outlines estimated future year's funding levels. Whilst a balanced budget is presented for 2022/23, future years give rise to rapidly rising deficits inclusive of funding the capital programme.
- The settlement allowed a Council Tax increase of £10 for Band D for 2022/23. Whilst recognising the impact of any increase in Council Tax on the finances of households in County Durham and Darlington, in view of the future budgetary challenges referred to later, it is the view of officers that it is more important than ever, so far as is possible, to protect the base budget by increasing the Council Tax.
- The Government have announced that they intend to review the police funding formula allocation between Forces for future years. Durham could potentially lose significant sums of grant from any changes, based on previous formula reviews. In terms of timing, any new formula could be introduced in 2023/24 at the earliest.

Grant Settlement

- The final Local Government Finance Settlement, together with the Police Grant Report for 2022/23, has been put before the House of Commons. Central funding for 2022/23 has been set at £105.7m, an increase of £5.4m from 2021/22. This increase is to fund the uplift of police officers and includes £1.5m in ring-fenced grant which will only be released when the target for the officer uplift for the year is reached. This represents a challenge for the Force and a recruitment timetable has been agreed which will be monitored internally and nationally. The grant increase also includes resource to fund the additional employers national insurance increased and an element for a pay award.
- The estimated settlement for future years is based on current best estimates and includes further funding for additional uplift of officers and other service costs. It is not known whether future years will include any portion of ring-fenced grant, although the assumption is that officer numbers will remain static beyond March 2023.
- Capital grant has been rolled into revenue grant to give PCC's more financial flexibility.
- Grant levels, actual for 2022/23 and estimated for future years, is as follows:

	2021/22 £000 actual	2022/23 £000 actual	2023/24 £000 est	2024/25 £000 est	2025/26 £000 est
Police Grant including uplift grant	92,037	98,353	99,253	100,653	100,653
Legacy Council Tax Freeze Grants	6,110	6,110	6,110	6,110	6,110
Pension Grant	1,260	1,260	1,260	1,260	1,260
COVID grant	352	353	353	-	-
Central Government Funding	100,469	106,076	106,976	108,023	108,023

- As well as general grant, there will continue to be other specific grants in 2022/23 for example pension admin grant and counter terrorism grant.
- The Ring-fenced grant is specifically used to fund the increase in office numbers and so is already deducted from the PCC's budget requirements.
- The government has announced the 2022/23 Council Tax capping criteria at £10. This report notes the precept has been agreed at a £10 increase at Band D.
- Every 1% variation in the Band D Council Tax affects the Council Tax Requirement by £0.4m. A £10 increase in Council Tax, which is the maximum increase recommended to avoid a referendum and is a 4.3% rise, would result in an increase to the base budget of £1.6m for every year in the future. This would increase the Band D precept from £230.24 to £240.24 per annum, an increase of £10 per annum, which is 19p per week. The impact on the majority of households in County Durham and Darlington which are Band A properties, would be an increase of £6.67 from £153.49 to £160.16 per annum, which is equivalent to 13p per week.
- The Government has continued with a number of 'top sliced' funding streams totalling £1.37bn in 2022/23.

2022/23 Council Tax Requirement

- The '*council tax bases*' of Durham County Council and Darlington Borough Council are used to calculate the proportion of the PCC's total precept levied on each Council. The tax base is the estimated full year equivalent number of chargeable Band D dwellings with two or more liable adults and in respect of which tax will be received. The '*council tax bases*' for 2022/23, determined by the relevant authorities and notified to the Police and Crime Commissioner, are as follows:

<i>Council</i>	<i>Notified Council Tax Base</i>
Durham County	143,695.80
Darlington	34,464.50
Aggregate Council Tax Base	178,160.30

- The Basic Council Tax for the Office of the Police and Crime Commissioner (OPCC) is calculated by dividing the precept by the aggregate of tax base.

$$\frac{\text{Council Tax Requirement}}{\text{Aggregate Council Tax Base}} = \text{Basic Council Tax (At Band D)}$$

- An increase of £10 in Band D Council Tax would result in a budget of £148,501,251:

	£	£
<i>PCC's Budget Requirement (based on an increase in Basic Council Tax of £10 band D)</i>		146,785,764
<i>Less:</i>		
Specific Grant	54,768,219	
DCLG Grant	42,061,171	
Pension Grant	1,260,381	
Legacy Council Tax Grants	6,110,124	
COVID 19 grant	353,159	
		104,553,053
		42,232,711
<i>plus:</i>		
Estimated overall net deficit on Collection Funds at 31 st March 2022		568,519
<i>Council Tax Requirement</i>		42,801,230

This would mean a council tax of:

$$\frac{42,801,230}{178,160.30} = £240.24$$

- It is recommended that the Council Tax Requirement has been set at a level that results in a £10 increase in Band D Council Tax for the year ending 31st March 2023, pending agreement by the Police and Crime Panel, and
 - That in determining the Council Tax Requirement, the PCC notes the PCC Chief Finance Officer's report on the robustness of the estimates and the adequacy of reserves and risks in the budget, attached as Appendices 3 and 4.
 - The 'council tax base' for the whole of the Force area of County Durham and Darlington will be 178,160,30.

- The 'basic amount of council tax' be £240.24 and the amount of council tax for each category of dwelling will be as follows:

Valuation Band	(Proportion of Basic Amount)	Council Tax 2022/23
		£
A	(6/9)	160.16
B	(7/9)	186.85
C	(8/9)	213.55
D	(Basic Amount)	240.24
E	(11/9)	293.63
F	(13/9)	347.01
G	(15/9)	400.40
H	(18/9)	480.48

- The Budget Requirement is £146,785,764 and that after taking account of Police Specific Grant of £54,768,219, DCLG of £42,061,171, Pension Grant of £1,260,381 and Legacy Council Tax Grants of £6,110,124, precepts totalling £42,801,230 be issued to Authorities as follows:

Council	Council Tax Base	Precept (£)
Durham County	143,695.80	34,521,479
Darlington	34,464.50	8,279,751
	178,160.30	42,801,230

- Precept Instalments: Discussions with the Treasurers of the Collecting Authorities have taken place, and the dates for the payment of the precept in ten equal instalments are as follows:

(a) Durham County Council

- 4 April 2022
- 3 May 2022
- 6 June 2022
- 4 July 2022
- 2 August 2022
- 2 September 2022
- 3 October 2022
- 2 November 2022
- 2 December 2022
- 4 January 2023
-

(b) Darlington Borough Council

- 19 April 2022
- 24 May 2022
- 29 June 2022
- 13 October 2022
- 17 November 2022
- 22 December 2022

- 3 August 2022
- 8 September 2022
- 31 January 2023
- 7 March 2023

The precept has been consulted on and proposed by the PCC.

Level of Financial Reserves

- To ensure ongoing financial viability it is important that the Police and Crime Commissioner continues to maintain a suitable level of reserves. Whilst there is no specific guidance on what represents a suitable level of reserves in percentage terms, it is important to take into account the various risks to be faced when coming to a view on reserve levels. It is the view of Chief Finance Officer (for the PCC and Chief Constable) that general reserves should not be used to support day to day expenditure given: the level of funding uncertainty in future years (where the grant allocation has not been confirmed by the Home Office); localisation of council tax benefit; rising costs and council tax capping limits. Reserves should only be used to invest in capital expenditure or invest in expenditure which will lead to clear efficiencies.
- The current policy statement on the level of reserves includes the following:
 - The Police and Crime Commissioner will set aside sufficient sums in earmarked reserves as it considered prudent to do so. The PCC Chief Finance Officer will be authorised to establish such reserves as are required, will review them for both adequacy and purpose, and report on a regular basis to the Police and Crime Commissioner.
 - The Police and Crime Commissioner will aim to maintain, broadly, general reserves of between 4% and 5% of the revenue estimates which are currently about £5.871m and £7.339m respectively (based on 2022/23 revenue funding of £146.786m) subject to an annual review by the PCC Chief Finance Officer as part of the budget process.
- The following tables show the estimated movement in financial reserves over the period to 31st March 2025 assuming a £10 Band D Council Tax increase for 2022/23 and the two following years.

Summary of Total Reserves

Financial Reserves	Balance 31/3/21 £'000	Move 2021/22 £'000	Est Balance 31/3/22 £'000	Move 2022/3 £'000	Est Balance 31/3/23 £'000	Move 2023/4 £'000	Est Balance 31/3/24 £'000	Move 2024/5 £'000	Est Balance 31/3/25 £'000
General	6,559	0	6,559	0	6,559	0	6,559	0	6,559
Capital Grants Unapplied	2,514	41	2,555	(381)	2,174	(1,695)	479	0	479
Capital Contribut'ns	54	0	54	(54)	0	0	0	0	0
Capital Receipt	16,193	100	16,293	(16,200)	93	(93)	0	0	0

Earmarked	10,918	1,905	12,823	(9,946)	2,877	(353)	2,524	0	2,524
Total Reserves	36,328	2,046	38,284	(26,581)	11,703	(2,141)	9,562	0	9,562

The expected use of reserves is as follows:

- £28.9m to fund capital expenditure in 2022/23
- £5.7m to fund capital expenditure in 2023/24
- £6.5m to fund capital expenditure in 2024/25

The above usage is to fund the draft capital programme and will be subject to regular review. This usage shows a significant reduction in reserves.

Key Risks and financial resilience

- The following key risks with associated mitigating action and responsible persons are included within the medium term financial plan (see appendices 3 and 4 for more details):
 - Revised allocation formula between Forces,
 - An ageing estate portfolio putting increased pressure on facilities management budgets,
 - Police officer capacity to respond to service demands,
 - Flexibility to move police resources to areas of need,
 - Demand continues to rise and change,
 - Collaboration may require up-front costs of change,
 - Uncertainty about partners' future budget plans,
 - The impact of any move to multiyear pay awards,
 - Uncertainty in relation to future pension costs,
 - Adequate future funding of uplift.
- In relation to financial resilience, the key issues to note are :
 - Reserves will be almost depleted by 2024/25 as a result of funding capital investment
 - There will be revenue deficits from 2023/24 to manage (see appendix 3)
 - There will be a need to plan and deliver savings from 2023/24

Cost Control

Given the continual impact of austerity, cost control is more important than ever. External audit review Value for Money arrangements each year and give the PCC and Chief Constable positive assurance in this regard. Internal audit also review financial controls and financial planning assumptions on a regular basis and their last report gave substantial assurance to the Chief Constable.

Specifically, the following controls are in place:

- Monthly budget reviews are carried out in each Command.
- The Chief Finance Officer reviews the overall Force and PCC budgets each quarter.
- Overtime is reviewed by the Force Executive and each Command monthly.
- Detailed outturn reports are produced for Joint Audit Committee.
- Experienced and qualified Finance staff work closely with the Commanders and Executive officers.
- The Deputy Chief Constable and Assistant Chief Officer chair the Strategic Resource Group which controls overall officer and staff numbers to ensure they remain in line with budget.
- Benchmarking is carried out regularly eg use of the VFM profiles and other external data.
- Commissioning Boards for both the PCC and Chief Constable are in place to ensure planned changes in resources and grants are carefully considered.

Capital Budget 2022/23

Prudential Code (including Treasury Management)

- Under the Prudential Code for Capital Expenditure, the PCC is free to make borrowing decisions according to what is affordable. The proposed capital programme for new starts and carry forward in 2022/23 totals £29.7m of which part will be met with a contribution from reserves and capital receipts unapplied. In order to reduce the impact on the 2022/23 budget, the Council Tax Requirement has been compiled on the assumption that capital receipts and a revenue contribution to capital will be used to finance the capital budget. Technical recommendations relating to the Code are set out in Appendix 2.
- The Prudential Code for Capital Finance in Local Authorities was introduced with effect from 1 April 2004. The key objectives of the Prudential Code are to ensure that within a clear framework the capital investment plans of the PCC are affordable, prudent and sustainable.
- A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. Details of the requirements of the Code are included in Appendix 2 and the recommended limits are detailed below for consideration.
- **It is recommended that the PCC considers prudential borrowing and treasury management arrangements outlined in Appendix 2 and affirms them as the basis on which such business will be conducted in 2022/23 in order to facilitate the major capital programme outlined in the Medium Term Financial Plan.**
- The 2021/22 capital programme is progressing. The revenue consequences of this programme have been taken into account in the 2022/23 budget and medium term financial plan. Certain projects are committed but not yet fully delivered and it is therefore necessary to allow a carry forward into 2022/23.
- **It is recommended that the PCC agrees the carry forward of underspends on the 2021/22 capital programme.**

Considerations under the Prudential Code

- In considering the programme for capital investment, under the Prudential Code, the PCC is required to have regard to the following matters:
 - Affordability, e.g. implications for Council Tax. The prudential indicators have been set assuming a Council Tax increase of £10 in 2022/23 and £10 in the subsequent two years and 1.98% thereafter.
 - Prudence and sustainability, e.g. implications for external borrowing. The implication for external borrowing of the PCCC's capital spending plans has been assessed as both prudent and sustainable in the long term.
 - Value for money.
 - Stewardship of assets.
 - Service objectives, e.g. strategic planning for the PCC and the Force. The PCC has a medium term financial plan that is updated annually and that helps to ensure that both service and corporate objectives are taken account of as part of the budgetary process.
 - Practicality, e.g. achievability of the forward plan. The current capital plan is deemed to be achievable.
 - The 2022/23 capital programme is considered to be both realistic and achievable.
 - The revised capital budget for the years 2021/22 and the proposed capital expenditure for 2022/23 to 2025/26 are detailed in the table below, with funding profile included.

	Outturn 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000
Expenditure					
Buildings: Major works	2,180	21,108	2,291	0	0
Buildings: Minor Works	321	650	1,700	500	500
Buildings carry forward from prior year	0	704	0	0	0
Vehicles	907	1,200	1,200	1,400	1,400
Vehicle carry forward from prior year	0	838	0	0	0
ICT	1,632	2,275	2,574	4,275	2,945
ICT carry forward from prior year	0	2,000	600	0	0
Equipment	42	954	200	320	50
Total	5,082	29,729	8,565	6,495	4,895
Funding					
Capital Grant	0	381	1,695	0	0
Special Grant	92	0	0	0	0
Capital Receipts		16,354	2,193	100	2,100
Revenue Contribution	4,990	2,951	3,477	6,395	2,795
Strategic Reserve	0	9,593	0	0	0
Self-Financed Borrowing	0	450	1,200	0	0

Total	5,082	29,729	8,565	6,495	4,895
Capital Financing Costs					
Minimum Revenue Provision	325	325	415	400	655
Revenue Contribution	4,990	2,951	3,477	6,395	2,795
Contribution from Reserves	0	9,593	0	0	0
Interest Charges	0	272	272	272	272
Total	5,315	13,141	4,164	7,067	3,722

Further work is underway to deliver the Estate Strategy and ICT Strategy which will act as a guide for future investment.

Medium Term Financial Plan 2022/23 to 2025/26

- The updated Medium Term Financial Plan is attached as Appendix 3.
- The Local Government Provisional Finance Settlement provides details of formula grant levels for 2022/23. Settlement figures for 2023/24 onwards assume further increases to support the uplift in police officer numbers and also to meet further cost pressures.

Acknowledgement

Recommendations

1. It is recommended that the Council Tax Requirement has been set at a level that results in a £10 increase in Band D Council Tax for the year ending 31st March 2023, pending agreement by the Police and Crime Panel.
2. It is recommended that the PCC considers prudential borrowing and treasury management arrangements outlined in Appendix 2 and affirms them as the basis on which such business will be conducted in 2022/23 in order to facilitate the major capital programme outlined in the Medium Term Financial Plan.
3. It is recommended that the PCC agrees the carry forward of underspends on the 2021/22 capital programme.
4. It is recommended that the PCC acknowledges that the strength of the risk management processes, the adequacy of reserves and the robustness of the financial estimates (appendix 4) give sufficient reassurance and confidence to enable her to approve the Annual Budget and note the level of Council Tax for 2022/23.

G Ridley

PCC Chief Finance Officer

J Farrell

Chief Constable

Appendix 1: Risks and Implications

Finance

These are contained in the main body of the report.

Staffing

The budgetary implications for staffing are dealt within the MTFP.

Equality and Diversity

N/A

Accommodation

The capital budget has implications for the way in which accommodation will be delivered in the future.

Crime and Disorder

N/A

Human Rights

N/A

Children's Act 2004

N/A

Stakeholder/Community Engagement

A number of public consultation meetings were held to invite views on budget setting and the level of precept.

Environment

N/A

Collaboration

The budget assumes that existing collaborations will continue with the exception of CDSOU which has been the subject of PCC briefings.

Value for Money and Productivity

N/A

Other risks

N/A

Contact Officer:	Gary Ridley
Job Title:	PCC Chief Finance Officer
Telephone:	0191 3752204
Email:	Gary.ridley@durham.police.uk

PRUDENTIAL CODE

Background

1. The framework of the prudential capital finance system, which came into effect from 1st April 2004, is contained in the Local Government Act 2003. Under the Act, Government borrowing controls based on “credit approvals” were abolished with effect from 1st April 2004. The PCC is now free to borrow and take out leases without Government consent, provided these commitments can be afforded. The Prudential Code is designed to guide the PCC’s decision on what can be afforded. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 specifies the Prudential Code for Capital Finance in Local Authorities, issued by CIPFA, as the code of practice to which local authorities must have regard when setting and reviewing their affordable borrowing limit.
2. The key objectives of the Prudential Code are to ensure that within a clear framework the capital investment plans of the PCC are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.
3. To demonstrate that the above objectives have been fulfilled the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account. The Code does not include limits; these are for the PCC to set.
4. Previously, credit approvals from Central Government set the limit of a local authority’s long-term borrowing and attracted Revenue Support Grant (RSG) towards the financing costs of loans (interest and repayment of principal). Under the current system, unless, exceptionally, a national limit is imposed, the PCC is free to make his own borrowing decisions according to what can be afforded. Concerning borrowing up to 2010/11, Central Government support for borrowing through Formula Grant was given on the basis of a named amount of capital expenditure which borrowing will support. With effect from 2011/12 the Government determined that no new supported borrowing allocations would be made in the Spending Review period. Government support is now given in the form of capital grant only. The PCC will take the totality of Central Government support into account in setting prudential limits.

Prudential Indicators

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

	Outturn 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000
Expenditure	5,082	29,729	8,565	6,495	4,895

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

Ratio of Financing Costs to Net Revenue Stream	Outturn 2021/22	Estimate 2022/23	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26
	%	%	%	%	%
	3.81%	8.95%	2.74%	4.55%	2.37%
Financing Costs (£'000)	5,315	13,141	4,164	7,067	3,722
Net Revenue Stream (£'000)	139,350	146,785	151,777	155,319	156,738

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

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

Capital Financing Requirement	Outturn 2021/22	Estimate 2022/23	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26
	£'000	£'000	£'000	£'000	£'000
	12,788	12,913	13,699	13,299	12,645

The Capital Financing Requirement measures the underlying need to borrow for a capital purpose. The PCC has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The PCC's treasury management strategy and annual plan for 2022/23 is part of this Section (see paragraph 21 onwards).

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

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

"In order to ensure that over the medium term net borrowing will only be for a capital purpose the PCC should ensure that gross external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

Minimum Revenue Provision (MRP) Statement

9. Previously local authorities were required to set aside some of their revenue as provision for repayment of debt. MRP was calculated each year subject to a minimum of 4% of capital financing requirement at the start of the year.
10. These rules have been replaced with a duty for an authority to provide for an amount of MRP which is considered to be "prudent". CLG has issued guidance on MRP. The regulations do not define "prudent provision".
11. The guidance explains that the broad aim of prudent provision is to ensure that debt is repaid over a period that is reasonably close to the time over which the capital expenditure will provide benefits. In the case of borrowing supported by Government through the Formula Grant system, it would be reasonable to link the period of making provision of the grant, which is 4% of the estimated supported capital expenditure and 4% equates to the repayment of debt over 25 years.
12. MRP should normally start in the financial year following the one in which the expenditure was incurred.
13. The Secretary of State recommends that a Statement of Methodology to be used by authorities be approved by the PCC before the start of each financial year.
14. It is recommended when determining the minimum revenue provision:
 - a. **Option 2: CFR Method (MRP is equal to 4% of the non-housing capital finance requirement at the end of the preceding financial year) is used in relation to all capital expenditure before 1st April 2008, but only for capital expenditure financed by supported borrowing during 1st April 2008 to 31st March 2011.**
 - b. **Option 3: Asset Life Method (MRP is based on the life of the asset) is used for capital expenditure financed by unsupported borrowing after 1st April 2008.**

External Debt

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

Authorised Limits	Outturn 2021/22 £'m	Estimate 2022/23 £'m	Estimate 2023/24 £'m	Estimate 2024/25 £'m	Estimate 2025/26 £'m
Borrowing	17.8	17.9	18.7	18.3	17.6
Long term Liabilities	0.0	0.0	0.0	0.0	1.0
Total	17.8	17.9	18.7	18.3	18.6

16. The Authorised Limits are consistent with the PCC's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with the approved Treasury Management policy statement and practices. They are based on the estimate of most likely, prudent but not worst-case scenario, with the addition of sufficient headroom over and above this to allow for operational management. An assessment of risk has been taken into account, as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cash flow requirements.
17. The proposed Operational Boundary for external debt is based on the same estimates as the Authorised Limit but reflects directly the PCC Chief Finance Officer's estimate of the most likely prudent but not worst case scenario, without the additional headroom included within the Authorised Limit. The Operational Boundary represents a key management tool for in year monitoring by the PCC Chief Finance Officer. Within the Operational Boundary, figures for borrowing and other long-term liabilities are separately identified.

Operational Boundary for External Debt	Outturn 2021/22 £'m	Estimate 2022/23 £'m	Estimate 2023/24 £'m	Estimate 2024/25 £'m	Estimate 2025/26 £'m
Borrowing	12.8	12.9	13.7	13.3	12.6
Long term Liabilities	0.0	0.0	0.0	0.0	1.0
Total	12.8	12.9	13.7	13.3	13.6

Council Tax

18. The Prudential Indicators have been calculated assuming a £10 increase in 2022/23 to 2024/25 and 1.98% for 2025/26.
19. The capital programme is funded by a mix of capital grants, contributions from earmarked reserves and borrowing under the prudential code.
20. The estimate of the incremental impact of this prudential borrowing, over and above capital investment decisions that have previously been taken by the Authority for Band D Council Tax, are:

Incremental Impact on Band D Council Tax	Outturn 2021/22	Estimate 2022/23	Estimate 2022/23
	%	%	%
	0.00%	0.00%	0.00%

Treasury Management

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

- (i) Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
 - (ii) Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities.
 - (iii) They should acknowledge that the pursuit of best value in treasury management and the use of suitable performance measures are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.
22. The PCC has formally adopted the key recommendations of the CIPFA Code of Practice for Treasury Management in the Public Services and has created and maintains as the cornerstone for effective treasury management:
- a. A treasury management policy statement stating the policies and objectives of its treasury management activities
 - b. Suitable treasury management practices (TMPs), setting out the manner in which the PCC will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
23. Reports will be presented to the PCC on the treasury management policies, practices and activities, including an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in the TMPs. In implementing this strategy the PCC will give priority to security and liquidity rather than yield. However the PCC will aim to achieve the highest rate of interest consistent with proper levels of security and liquidity. In particular attention is drawn to the key objectives of the Investment Strategy which is firstly safeguarding the repayment of principal and interest of its investments on time and secondly ensuring adequate liquidity. The investment return is the third objective. The PCC delegates responsibility for the execution and administration of its treasury management policies and practices to the PCC Chief Finance Officer, who will act in accordance with the Policy Statement, Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management.

Treasury Management Indicators

24. The PCC has set an upper limit on its fixed interest rate exposures for 2021/22, 2022/23 and 2023/24 of 100% of its net outstanding principal sum.
25. The PCC has further set an upper limit on its variable interest rate exposures for 2021/22, 2022/23 and 2023/24 of 30% of its net outstanding principal sums.

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

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

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

28. It is recommended that the PCC:

- a. Notes the prudential indicators,
- b. Approves the Minimum Revenue Provision (MRP) Statement in Appendix 2 (paragraphs 9 to 14) of this report,
- c. Determines an Authorised Limit of £17.9m and an Operational Boundary Limit of £12.9m for external debt in 2022/23.
- d. Reaffirms the adoption of the key recommendations of the CIPFA Code as detailed in paragraph 21 of this report.
- e. Sets an upper limit on the fixed interest rate exposures for 2021/22, 2022/23 and 2023/24 of 50% of the net outstanding principal sum.
- f. Sets an upper limit on the variable interest rate exposures for 2021/22, 2022/23 and 2023/24 of 30% of its net outstanding principal sums.

Treasury Management Policy Statement

1. The PCC defines the treasury management activities as:

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

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

Treasury Management Practices

1. **TMP1 – Treasury Risk Management**

1.1. *The PCC Chief Finance Officer shall:*

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

1.2. *Liquidity*

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

1.3. *Interest Rates*

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

1.4. *Credit and Counterparties*

The PCC regards a prime objective of the treasury management activities to be the security of the principal sums invested. A formal counterparty list will be maintained and the named organisations and limits will reflect a prudent attitude towards organisations with which funds may be deposited, and will limit the

PCC's investment activities to the instruments, methods and techniques referred to in **TMP4** *Approved Instruments, methods and techniques*.

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

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

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

1.6. *Legal and Regulatory*

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

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

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

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

1.8. *Market Risk*

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

2. **TMP2 - BEST VALUE AND PERFORMANCE MEASUREMENT**

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

3. **TMP3 - DECISION-MAKING AND ANALYSIS**

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

4. TMP4 - APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

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

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

- 5.1. The PCC's treasury management activities will be properly structured in a clear and open fashion and a rigorous discipline of segregation of duties will be enforced to ensure effective control and monitoring of treasury management activities for the reduction of the risk of fraud or error and for the pursuit of optimum performance.
- 5.2. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.
- 5.3. If and when the PCC intends, as a result of lack of resources or other circumstances, to depart from these principles, the PCC Chief Finance Officer will ensure that the reasons are properly reported in accordance with **TMP6 Reporting requirements and management information arrangements**, and the implications properly considered and evaluated.
- 5.4. The PCC Chief Finance Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover.
- 5.5. The PCC Chief Finance Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.
- 5.6. The PCC Chief Finance Officer will fulfil all delegated responsibilities in respect of treasury management in accordance with the PCC's Treasury Management Policy Statement, Treasury Management Practices and the CIPFA Standard of Professional Practice on Treasury Management.

6. TMP6 - REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

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

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

6.2. As a minimum, the PCC will receive:

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

7. TMP7 - BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

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

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

8. TMP8 - CASH AND CASH FLOW MANAGEMENT

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

9. TMP 9 - MONEY LAUNDERING

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

10. TMP 10 - STAFF TRAINING AND QUALIFICATIONS

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

11. TMP 11 - USE OF EXTERNAL SERVICE PROVIDERS

- 11.1. When external service providers are employed by the PCC, the PCC Chief Finance Officer will ensure that this is done for reasons which have been submitted to a full evaluation of the costs and benefits. The terms of their appointment and the methods by which service providers' value will be assessed will be properly agreed and documented, and subjected to regular review.
- 11.2. Where feasible and necessary, a spread of service providers will be used to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, PCC Procedural Rules and Financial Regulations plus legislative requirements will always be observed. The monitoring of such arrangements rests with the PCC Chief Finance Officer.

12. TMP 12 - CORPORATE GOVERNANCE

- 12.1. The PCC is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.
- 12.2. The PCC has adopted and implemented the key recommendations of the Code of Practice on Treasury Management in the Public Services. This, together with other arrangements that the PCC Chief Finance Officer will put in place, is considered vital to the achievement of proper corporate governance in treasury management, and the PCC Chief Finance Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Treasury Management Strategy 2022/23

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

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

1) Borrowing Strategy 2022/23

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

Long-term fixed interest rates are at risk of being higher over the medium term, and short term rates are expected to rise, although more modestly. The PCC Chief Finance Officer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short/medium term.

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

2) Investment Strategy 2022/23

a) Key Objectives

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

b) Risk Benchmarking

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

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

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

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

v) Yield: Local measure of yield benchmarks is:

- (1) Investments - Internal returns above the Daily Stirling overnight index average (SONIA) and as a guide the current rate of SONIA is 0.5169 (as at January 2022).

c) Investment Counterparty Selection Criteria

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

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

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

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

iii) The rating criteria use the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the PCC's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one

meets the PCC's criteria, the other does not, the institution will fall outside of the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

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

d) Specified Investments

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

(1) Banks 1 - Good Credit Quality

The PCC will only use banks which:

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

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

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

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

(4) Building Societies

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

(5) Money Market Funds: AAA

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

(7) Other Local Authorities, Parish Councils etc.

e) Non - Specified Investments

i) Non-Specified investments are those not meeting the definition in the Specified Investments section above. It is proposed that during 2022/23 PCC will not invest in Non-Specified Investments, including those to be repaid or redeemed more than 12 months from the date on which the investment was made.

f) Use of additional information other than credit ratings

i) Additional requirements under the Code of Practice now require the PCC to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example credit default swaps, negative rating watches/ outlooks) will be applied to compare the relative security of differing investment counterparties.

g) Time and Monetary Limits applying to Investments

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

	Long term Rating)	Money Limit	Time Limit
Banks 1 category high quality	AA	£5m	1 year
Lloyds Bank	A	£7m	1 year
Banks 1 category medium quality	A-	£5m	6 months
Banks 2 category-part nationalised	N/A	£5m	1 year
DMADF	AA+	Unlimited	6 months
Local Authorities	N/A	£5m	1 year
Money market funds	AAA	£3m per fund	Liquid

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

h) Sensitivity to Interest Rate Movements

- i) Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified.
- ii) The estimated impact of a 1% increase in interest rates to the estimated treasury management income for the PCC in 2022/23 is an increase of £150,000. A decrease in interest rates is unlikely and any impact would not be material.

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

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

Durham Police & Crime Commissioner Medium Term Financial Plan 2022/23 to 2025/26

Introduction

The prevailing national financial climate has transformed the way in which we perceive the delivery of public services. The Policing Service has an ongoing imperative to evidence value for money and deliver a consistently high level of services with shrinking financial resources. The austerity measures which have prevailed in recent years will continue to require the delivery of value for money and the bearing down on costs.

This plan demonstrates in financial terms how the Police and Crime Commissioner (PCC) will strive to achieve his vision for policing in County Durham and Darlington. The plan provides an outline of the demands and consequential revenue resource requirements of the PCC and Constabulary for the four financial years commencing 1st April 2021. The plan also details the proposed five year capital programme and the revenue consequences of that programme.

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

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

Purpose

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

- The level of resources which are likely to be available in the future to deliver national and local priorities;
- The future demands upon the revenue budget;
- The impact of external factors;
- The amount of capital investment which is required to achieve corporate objectives;
- The revenue consequences of such capital investment;
- The future reserve levels of the PCC;
- The impact of additional demands on the level of council tax levied by the Police and Crime Commissioner;
- The main financial risks facing the PCC and Constabulary.

Strategic Planning Principles

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

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

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

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

Key Strategic Areas & Objectives

The approach to strategic planning is now shaped by the prevailing drive to demonstrate value for money in a time of reducing resources. The Constabulary has a strategy map, Plan on a Page, based on a balanced scorecard approach. This has enabled colleagues across the Constabulary to understand how their activities link with and support delivery of the key outcomes required that will help to achieve the PCC and Constabulary's Vision.

The Vision:

“Durham Constabulary will deliver excellent policing, inspiring confidence in victims and our communities by protecting neighbourhoods, tackling criminals and solving problems around the clock, proud to deliver value for money policing across County Durham and Darlington.”

The strategy map is structured into four key areas which enable the Constabulary to identify:

- What we need to be best at (Core Deliverables),
- What we need to help us (Enabling Factors),
- The resources we need (Resources),
- Use the funding efficiently and effectively (Value for Money).

Each key area describes a number of strategic objectives that informs where the PCC and Constabulary need to focus their attention and resources. The process collects each strategic objective and identifies key linkages ensuring alignment to the corporate vision. The strategic objectives supporting each key area are:

- What we need to be best at (Core Deliverables):
 - Protecting Neighbourhoods - ‘Ensure proactive approaches, with partners, to identify & protect vulnerable people and reduce harm’,
 - Tackling Criminals - ‘To have fewer victims and reduce re-offending’,
 - Solving Problems – ‘Empower the people in the organisation to take responsibility to collectively solve problems’.
- What we need to help us (Enabling Factors):
 - Effective Service Provision,
 - Managing our Data and Information – ‘Ensure our information supports our ability to make informed decisions for the benefit of the public’,
 - Futures – ‘Be a learning organisation that can embrace digital transformation, adapt quickly to change with innovative, efficient and effective approaches’,

- Organisational Attitudes and Behaviours – Ensure our attitudes and behaviours generate legitimacy, trust and confidence in the public and colleagues’.
- The resources we need (Resources):
 - Our People – ‘Have the right people, who contribute, with the capacity and capability to deliver, with wellbeing and leadership as our focus’,
 - Our Stuff – ‘Have the right resources to help us do the job’.
- Use the funding efficiently and effectively (Value for Money):
 - Ensure a balance budget and generate income,
 - Identify & consider collaborative opportunities which bring tangible benefits & realise efficiencies,
 - Have a suitable medium term and long term financial plan with identified contingencies,
 - Prepare for future funding changes and austerity and maximise savings from new ways of working,
 - Have a fully costed and funded capital plan with aligned capital investment,
 - Invest wisely.

Revenue Expenditure

Financial Planning Assumptions

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

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

	Estimate 2022/23	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26
Officer Pay Inflation (from September each year)	3.5%	2.5%	2%	2%
Officer Pension Contribution Increase	Nil	Nil	Nil	Nil
Staff Pay Inflation	3.5%	2.5%	2%	2%
Police Staff Pension Contribution Increase	0%	0%	0%	0%
Police Officer Vacancy Factor	0%	0%	0%	0%
Police Staff Vacancy Factor (except for pcso's call handlers and detention officers which is set at 0%)	8%	8%	8%	8%
Energy & Fuel Inflation	5%	5%	5%	5%
Other Non-Pay Inflation (except where contractually based)	2%	0%	0%	0%
Council Tax Increase Band D	£10	£10	£10	1.98%
Tax Base Growth	Actual	1%	1%	1%
Other Income Inflation	0%	0%	0%	0%

Work Force Planning

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

	Outturn 2021/22	Estimate 2022/23	Estimate 2023/24	Estimate 2024/24	Estimate 2025/26
Officers	1,275.0	1,365.0	1,365.0	1,365.0	1,365.0
PCSO's	146.0	146.0	146.0	146.0	146.0
Staff	1,061.0	1,056.0	1,056.0	1,056.0	1,056.0
Apprentices	54.0	54.0	54.0	54.0	54.0
PCC	17.2	34.4	33.0	32.4	32.4
Total FTE	2,553.2	2,655.4	2,654.0	2,653.4	2,653.4

These figures are kept under continuous review.

This table considers the impact of all the income and revenue assumptions over the medium term.

Budget Heading	Estimate 2021/22	Estimate 2022/23	Estimate 2022/23	Estimate 2023/24	Estimate 2025/26
	£'000	£'000	£'000	£'000	£'000
Employees	116,442	123,593	130,972	134,539	138,947
Premises	5,296	5,395	6,111	6,303	6,466
Transport	2,372	2,447	2,567	2,605	2,641
Supplies and Services	12,697	13,273	12,011	12,570	12,206
Joint & Other Authorities	3,944	2,654	2,654	2,654	2,654
<u>less</u>					
Income					
Customer & Client Receipts	(4,841)	(2,980)	(3,032)	(3,012)	(2,964)
Collaboration income	(1,233)	(895)	(895)	(895)	(895)
Secondment Income	(878)	(1,026)	(1,026)	(1,026)	(1,026)
Interest	(35)	(85)	(50)	(50)	(50)
Special Grants	(3,382)	(1,942)	(419)	(419)	(419)
<u>plus</u>					
Contribution To/ From (-) Reserve	1,199	0	0	0	0
Capital Financing Costs	5,315	3,547	4,163	7,066	3,721
Police Constabulary Costs	136,896	143,981	153,056	160,335	161,281
Victims Commissioning Grant	(870)	(1,304)	(1,304)	(1,304)	(1,304)
PCC commissioning	1,555	2,670	2,648	2,651	2,694
Community Safety Grant	621	239	261	258	264
PCC Costs	1,148	1,199	1,231	1,252	1,283
Net Expenditure	139,350	146,785	155,892	163,192	164,218
Funded by					
DCLG Grant	(42,061)	(42,061)	(42,061)	(42,061)	(42,061)
Police Grant	(49,584)	(54,768)	(57,192)	(58,592)	(58,592)
Council Tax Support Grant	(6,110)	(6,110)	(6,110)	(6,110)	(6,110)
Pension grant	(1,260)	(1,260)	(1,260)	(1,260)	(1,260)
COVID grant	(353)	(353)	(353)	0	0
Council Tax	(39,982)	(42,233)	(44,801)	(47,296)	(48,715)
Total Funding	(139,350)	(146,785)	(151,777)	(155,319)	(156,738)
(Surplus) / Deficit	-	-	4,115	7,873	7,480

Comment:

- The latest HMIC Value for Money Profiles has been used to identify areas for potential efficiency savings.

- A detailed workforce plan has been produced which compliments this plan.

Funding Formula

The Home Office still have plans to review the funding formula allocation between Forces in future years. Our understanding, based on previous exemplifications published in 2015, is that Durham could potentially lose up to £10m per annum from the changes.

Capital Expenditure

The enclosed capital summary sets out proposed expenditure for capital projects for 2022/23 to 2025/26 and the associated funding options. The PCC will no longer receive a capital grant from 2022/23.

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

The impact of capital receipts generated from the sale of land owned by the PCC for development of commercial or housing purposes has been included in the funding.

Revenue Impact of the Capital Programme

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

The associated future capital financing charges as a result of this provisional programme have been determined based upon the expected lifespan of the asset, generally as follows: Motor Vehicles (4 years); ICT Systems (5 years); ANPR and other Equipment (10 years); Minor Building Work (20 years); Major New Buildings (40 or 60 years).

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

The following table contains a summary of capital expenditure by asset category.

	Outturn 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000	Estimate 2025/26 £'000
Expenditure					
Buildings: Major works	2,180	21,108	2,291	0	0
Buildings: Minor Works	321	650	1,700	500	500
Buildings carry forward from prior year	0	704	0	0	0
Vehicles	907	1,200	1,200	1,400	1,400
Vehicle carry forward from prior year	0	838	0	0	0
ICT	1,632	2,275	2,574	4,275	2,945
ICT carry forward from prior year	0	2,000	600	0	0
Equipment	42	954	200	320	50
Total	5,082	29,729	8,565	6,495	4,895
Funding					
Capital Grant	0	381	1,695	0	0
Special Grant	92	0	0	0	0
Capital Receipts	0	16,354	2,193	100	2,100
Revenue Contribution	4,990	2,951	3,477	6,395	2,795
Strategic Reserve	0	9,593	0	0	0
Self-Financed Borrowing	0	450	1,200	0	0
Total	5,082	29,729	8,565	6,495	4,895
Capital Financing Costs					
Minimum Revenue Provision	325	325	415	400	655
Revenue Contribution	4,990	2,951	3,477	6,395	2,795
Contribution from Reserves	0	9,593	0	0	0
Interest Charges	0	272	272	272	272
Total	5,315	13,141	4,164	7,067	3,722

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

Estates

The primary focus for the Estates programme will be outlined in the new Estates Strategy which has been subject to consideration by the PCC.

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

Fleet

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

ICT

The ICT Strategy will outline the capital schemes to be delivered over the period covered by the plan. A large proportion of the ICT expenditure in the capital

programme relates to maintaining existing systems. Another key scheme is the national requirement for all Forces to upgrade their emergency services communications.

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

Planned Capital Expenditure from 2022/23 to 2025/26

	Outturn 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000	Estimate 2025/26 £'000
Expenditure					
Property capital carry forward from prior year		704			
Major Works Projects	2,180	21,108	2,291	0	0
Minor Works Projects	321	650	1,700	500	500
Estates total	2,501	22,462	3,991	500	500
Motor Vehicles Carry Forward from Prior Year		838			
Motor Vehicles	907	1,200	1,200	1,400	1,400
Motor Vehicles total	907	2,038	1,200	1,400	1,400
ICT Capital carry forward from prior year	0	2,000			
National Requirements	7	0	0	2,000	2,020
Infrastructure Technology Refresh	1,013	1,145	929	440	245
Digital Evidence	94	420	0	925	0
Mobile Working	33	0	340	0	0
Client devices	0	0	0	0	0
Business Applications	485	710	1,305	910	680
ICT total	1,632	4,275	2,574	4,275	2,945
Equipment	42	954	200	320	50
Grand Total	5,082	29,729	7,965	6,495	4,895

Key Risks

The following are the key risks contained within the plan

Risk	Mitigating Action	Person Responsible
Loss of funding due to reallocation between Forces	<ul style="list-style-type: none"> Workforce planning to reduce officer/staff numbers Cost reduction plans to be developed and implemented 	<ul style="list-style-type: none"> PCC Chief Finance Officer and Deputy Chief Constable

Risk	Mitigating Action	Person Responsible
	<ul style="list-style-type: none"> • Maximise precept income 	
An ageing estate portfolio putting increased pressure on facilities management budgets	<ul style="list-style-type: none"> • Agree and deliver capital programme time • Effective project planning 	<ul style="list-style-type: none"> • PCC Chief Finance Officer / PCC
Police officer capacity to respond to service demands	<ul style="list-style-type: none"> • Allocating resource to priority activities • Deliver agreed training programme. • Productivity measurement and management • Strategic Threat Assessment agreed and implemented 	<ul style="list-style-type: none"> • Commanders /Executive Team
Flexibility to move police resources to areas of need	<ul style="list-style-type: none"> • Plan on a page promulgated across the organisation • Regular Force threat and risk meetings • Update workforce plan • Targeted reviews to be carried out 	<ul style="list-style-type: none"> • Executive Team / Tasking & Coordination
Demand continues to rise	<ul style="list-style-type: none"> • Introduction of new Force structure • On-going crime prevention/detection and problem solving initiatives. • Productivity measurement and management • Deliver agreed training programme • New shift pattern introduced for response officers 	<ul style="list-style-type: none"> • Heads of Commands
Collaboration may require up-front costs of change	<ul style="list-style-type: none"> • Identify 'invest to save' budget/reserve 	<ul style="list-style-type: none"> • PCC Chief Finance Officer/Exec/PCC
Move to multiyear pay award	<ul style="list-style-type: none"> • Include in planning assumption 	<ul style="list-style-type: none"> • PCC/CC Chief Finance Officer

Risk	Mitigating Action	Person Responsible
	<ul style="list-style-type: none"> • Calculate cashflow loss/ budget savings 	
Uncertainty in relation to future pension costs	<ul style="list-style-type: none"> • Police officers, request grant funding (national issue) • Staff, identify corresponding savings 	<ul style="list-style-type: none"> • PCC/CC Chief Finance Officer
Adequate future funding of uplift	<ul style="list-style-type: none"> • Ensure influence, where possible, of national financial position 	<ul style="list-style-type: none"> • PCC/CC Chief Finance Officer

Monitoring and Review

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

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

Purpose of Report

1. The purpose of this report is to provide the Police Crime and Victims' Commissioner (PCC) with reassurance and confidence in the accuracy and quality of the financial estimates for the years 2022/23 to 2025/26.
2. The robustness of the financial estimates considers important factors such as risks facing the PCC and the adequacy of financial reserves to enable the PCC to have flexibility in dealing with any unplanned events that may have a significant financial consequence during the course of the budget year 2022/23.

Background

3. The Police and Crime Commissioner decides every year how much they are going to raise from council tax. They base their decision on a budget that sets out estimates of what they plan to spend on each of their services.
4. The decision on the level of the council tax must be taken before the coming financial year begins and that level cannot be changed during the year, so allowances for risks and uncertainties that may create an increase in service costs or a loss of income must be made by:
 - a. Making realistic and prudent allowances in the financial estimates for the policing services provided, and also,
 - b. Ensuring that there are adequate reserves in place that can be drawn on to help manage the impact of any incident or eventuality that causes the PCC to exceed the budget estimates in 2022/23 for the delivery of policing services to the community of County Durham and Darlington.
5. Section 25 of the Local Government Act 2003 requires that the PCC's Chief Financial Officer reports to the PCC when considering the budget and council tax on the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that the PCC will have authoritative advice available to him prior to making the budget setting decisions.
6. Section 25 also requires the PCC to consider this report when making decisions about the budget.

Critical Role of Risk Management

7. There is considerable and continuous attention given to the risks facing the delivery of policing services in County Durham and Darlington. Each of the risks identified by the Force is allocated to and formally assessed by a strategic programme board. When each board meets work plans are modified to reflect new risks, or to reflect the best available information and the impact of mitigating actions.
8. In setting the budget the risks facing the PCC are influenced by the uncertainties of the economic environment and the level of expenditure reductions in the Policing Service and the wider public sector, all of which present difficulties in delivering a balanced budget. The key risks have been identified in the Budget report.

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

Robustness of Estimates

10. The budget process has involved the senior leadership teams in each Command, who have considered and evaluated a variety of service delivery options that balance the twin needs of maintaining service delivery and balancing the budget.
11. These options, identifying areas where savings can be made to provide the resources to fund the unavoidable service pressures, have been reported to the PCC and his Executive, which includes the Chief Constable and the PCC's Chief Financial Officer.
12. The key income and expenditure related planning assumptions are reflected in the attached table

	Estimate 2022/23	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26
Officer Pay Inflation (from September each year)	3.5%	2.5%	2%	2%
Officer Pension Contribution Increase	Nil	Nil	Nil	Nil
Staff Pay Inflation	3.5%	2.5%	2%	2%
Police Staff Pension Contribution Decrease (including lump sum payment)	0%	0%	0%	0%
Police Officer Vacancy Factor	0%	0%	0%	0%
Police Staff Vacancy Factor	8%	8%	8%	8%
Energy & Fuel Inflation	5%	5%	5%	5%
Other Non-Pay Inflation (except where contractually based)	2%	0%	0%	0%
Council Tax Increase Band D	£10	£10	£10	1.98%
Tax Base Growth	Actual	1%	1%	1%
Other Income Inflation	0%	0%	0%	0%

In relation to Government grant, assumptions for 2022/23 and 2023/24 are based on estimated uplift figures using standard capitation rates.

13. In relation to the robustness of the above table, the following should be noted:
- Pay inflation. This is in line with the NPCC multi year pay submission to the 2022 PRRB. A 1% differential is approx. £1.1m.
 - Pension increases. It is expected that any increase in police officer pension contribution will be funded by government grants
 - Energy and Fuel. The outturn for 2021/22 includes an extra £0.4m for the increased energy costs. The costs for future years include this additional amount plus inflation of 5%.

- Council Tax. This will be subject to the maximum permitted limit by Central Government.
 - Tax Base Growth. Future growth is based on historic trends. A 1% differential is approx. £0.4m.
 - Other Income Inflation. In recent years income budgets have been over-achieved therefore the budget estimates are considered reasonable.
 - Officer numbers are increased based on the uplift projections. Staff roles have also increased to support the additional officers.
14. Given the uncertainty about the future resources available to the PCC at the time of preparing this report, the estimates beyond 2022/23 are at present set out with the best available information at the time of this report. There have as yet been no indications of future years funding allocation by the Home Office.

Adequacy of Reserves

15. The CIPFA Local Authority Accounting Panel (LAAP) has issued a guidance note on Local Authority Reserves and balances (LAAP Bulletin 77) to assist local authorities in determining the adequacy of reserves. This guidance is not statutory, but compliance is seen as best practice.
16. The guidance however, states that no case has yet been made to set a statutory minimum level of reserves, either as an absolute amount or a percentage of the budget. Each Police and Crime Commissioner and local authority should take advice from its Chief Financial Officer and base its judgement on local circumstances.
17. The current policy statement on the level of reserves includes the following:
- a. The PCC will set aside sufficient sums in earmarked reserves as considered prudent to do so. The PCC Chief Finance Officer will be authorised to establish such reserves as are required, will review them for both adequacy and purpose, and report on a regular basis to the Police Crime and Victims' Commissioner.*
 - b. The PCC will aim to maintain, broadly, general reserves of between 4% and 5% of the revenue estimates currently £5.871m and £7.339m respectively (based on 2022/23 revenue funding of £146.786m) subject to an annual review by the PCC Chief Finance Officer as part of the budget process.*
18. Earmarked reserves have been established as a means of building up funds to meet known or predicted requirements. The level of earmarked reserves will be in the region of £12.8m at the end of March 2022.
19. The General Reserve has been set at approx. 4.5% of the revenue funding for 2022/23 and will be £6.559m at the end of March 2021.
20. The reserves are set at a level to accommodate any significant financial impact on capital or revenue expenditure in 2022/23.

21. The PCC's approach to the management of risks alongside the PCC's financial management arrangements suggest that the level of resources identified in the Annual Budget 2022/23 is sufficient to provide reassurance and confidence in the delivery of policing services to County Durham and Darlington.

Recommendation

22. **It is recommended that the PCC acknowledges that the strength of the risk management processes, the adequacy of reserves and the robustness of the financial estimates give sufficient reassurance and confidence to enable her to approve the Annual Budget and note the level of Council Tax for 2022/23.**