

**MEDIUM TERM FINANCIAL STRATEGY 2010-11 TO 2014-15
AND BUDGET REPORT 2011-12**

Joint Report by the Chief Constable and Treasurer

This report is for decision

PART 1 - STRATEGIC CONTEXT

1. INTRODUCTION

1.1 This report covers the spending proposals and key issues relating to the budget for 2011-12. It invites the Police Authority to consider and decide the revenue budget, capital programme and council tax levels for 2011-12, along with associated financing issues. The report contains appendices that provide more detailed information on the proposals.

Appendix A	-	Analysis of changes to the 2010-11 base budget
Appendix B	-	Capital programme
Appendix C	-	Movement on balances and reserves
Appendix D	-	Prudential Indicators
Appendix E	-	Treasury Management Strategy
Appendix F	-	Minimum Revenue Provision Statement
Appendix G	-	Council Tax Precept Calculations

1.2 Decisions on the annual budget proposals should be made in the context of the medium to longer term forecasts, particularly in the current uncertain economic climate. To that end, the budget proposals within the report are made within the context of a five year strategic and financial planning cycle, including the current year. The figures contained within the strategy are based upon current information and stated assumptions.

1.3 An integrated approach is taken to service and financial planning. The proposals in this report are consistent with efficiency planning assumptions and the development of the Policing Plan (to be considered by the Scrutiny & Audit Committee in March). A strong emphasis on risk management has been taken

throughout the process and the proposals take into account implications from the current year's budget monitoring process when considering additional commitments and identified savings.

- 1.4 The proposals present a balanced budget. Beyond 2011-12, the strategic overview identifies potential funding shortfalls over the following three year period with proposals as to how these shortfalls can be addressed to meet the difficult challenges ahead. The financial strategy outlined here will be kept under review throughout the coming year.
- 1.5 It must be emphasised that the financial plan covers a 4 year period in which there will be a number of fundamental strategic changes to the way in which the Constabulary and Police Authority operate. These include the review of the Norfolk Policing Model, a strategic alignment with Suffolk covering the majority of front line support and back office functions and the introduction of Police and Crime Commissioners. Assumptions have been made about spending commitments, the level and timing of savings and the use of reserves. However, in the current environment it is essential that the strategy remains fluid in order to adapt to changing circumstances; to that extent all aspects will be kept under ongoing review.

2. UPDATING THE FINANCIAL STRATEGY

- 2.1 In 2008 the global economy entered a severe recession. By the end of that year, both advanced and emerging market economies were contracting and the UK was no exception. The global economic position remains fragile.
- 2.2 At that time, the government had to borrow significant sums of money in order to support the financial sector. This has put an added strain on to the UK economy that will take some years to resolve. At the time of the previous financial strategy and budget report in February 2010, the then government was stressing the need for widespread savings to be made in the public sector going forward. The financial strategy forecast that required savings of £16 million would be needed over the 3 year period 2011-12 to 2013-14. This was based upon a given set of assumptions and government intentions to protect front line policing.
- 2.3 The new coalition government was appointed in May 2010 and announced that addressing the fiscal deficit was its top priority. As early as June 2010, the government announced significant in-year grant reductions for local authorities and police authorities. They also announced average grant reductions of 25% over the following 4 years, much greater than previously mooted, and that there would be no specific protection for front line policing.
- 2.4 As a result of the above, an updated financial planning report was presented at the Authority's August 2010 meeting which revised the previous assumptions and forecast a funding gap of £26 million over the 3 year period 2011-12 to 2013-14 (compared to £16 million previously) and £35 million over a 4 year period that included 2014-15. A number of initiatives had already been set in motion to address the previously estimated funding gap, such as a root and branch review of all non pay budgets and the Business Support Review. At this point further initiatives were put in place, including a moratorium on recruitment, a hold on the Long Term Estates Strategy and a review of the Norfolk Policing Model.

- 2.5 Although the Comprehensive Spending Review was announced in October 2010, this only gave high level indications of funding allocations for the police service as a whole. Provisional allocations for each police authority were issued in mid December 2010 and they have been used as a basis for this updated financial strategy. The allocations for 2011-12 have now been confirmed.

3. **BASELINE REVENUE BUDGET POSITION AND FINANCIAL FORECAST**

- 3.1 The Police Authority financial position is determined by the level of funding it receives and its spending plans and commitments.

Funding

- 3.2 The Police Authority receives funding from three main sources:
- Government Grant
 - Council Tax
 - Fees and Charges

Government grant

- 3.3 Formula grant is distributed to police authorities by means of:
- A central allocation based upon an amount per head
 - Relative need based upon a series of demographic factors
 - Relative resource based upon the ability of an authority to raise council tax through its tax-base.
 - A floor damping scheme that guarantees authorities a minimum increase in grant year on year
- 3.4 The government has agreed the general and specific grant allocations for 2011-12 for police authorities and provided provisional figures for such for 2012-13. It has also announced indicative police grant figures only for the following two years, but not the element of funding provided by the Department for Communities and Local Government (CLG) through redistributed business rates and revenue support grant. Thus the picture is incomplete for 2013-14 and 2014-15. The government has announced that a Local Government Resource Review will conclude in July 2011 and that this review may have implications for how the wider funding of local government impacts upon police authorities from 2013-14; thus the indicative figures for the latter two years are not reliable for planning purposes.
- 3.5 The government has retained the damping mechanism for the next 2 years at least and has decided to damp grant allocations at the level of the average reduction. This means that every police authority will see a cash reduction in general grant of 5.1% in 2011-12 and an indicative cash reduction of 6.7% in 2012-13. (This equates to reductions of 4.9% and 6.5% in Norfolk when including the Neighbourhood Policing Fund with the general grant). For planning purposes, and given the paragraph above, it has been assumed that grant funding will reduce by a further 2% in 2013-14 and a further 1% in 2014-15. This aligns with the high level cash reductions in police funding announced as part of the Comprehensive Spending Review.

3.6 As part of the settlement for 2011-12 and to arrive at the 5.1% grant reduction, the government has decided to absorb some specific grants into the general grant. The 2010-11 baseline has been revised to include these specific grants. (The CLG will use this revised figure and associated revised base budget to measure changes in council tax and the budget.) The details are shown below, together with the movement against the revised baseline for the next 2 years:

Adjusted Formula Grant 2010-11 as per Gov't Funding Changes

	2010-11 Revised £000
General Grant 2010-11	89,773
Crime Fighting Fund Absorbed	3,214
Rule 2 Grant Absorbed	2,343
Basic Command Unit Grant Absorbed	376
Revised Baseline	<u>95,706</u>

Comparison of Adjusted Formula Grant Against Forward Settlements

	2010-11 Revised £000	2011-12 Final £000	2012-13 Prov £000
General Grant	95,706	90,786	84,701
		-5.1%	-6.7%
<u>Remaining Specific Grants</u>			
Neighbourhood Policing Fund	*	3,957	3,956
Security Related	**	2,833	3,933

* In previous years the NPF has increased by inflation. It is intended that from 2013-14 this grant will also be absorbed into general grant.

** Figures were still awaited for 2011-12 at the time of preparing this report.

3.7 The Rule 2 grant referred to in the first table above is an amalgamation of former specific grants including the Rural Policing Grant. The grant awarded last year was £3.6 million but was reduced in-year during 2010-11 by £1.257 million. The net figure has been used by the government in calculating the revised grant level. Taking the original grant allocation of £3.6 million, the actual grant reduction in 2011-12 is actually 6.4% rather than the headline figure of 5.1%.

3.8 The grant allocation of £90.786 million in 2011-12 includes £25.304 million from redistributed business rates.

3.9 Grant support for the election of Police and Crime Commissioners is outside of these figures and will be paid directly to returning officers by the government.

Council tax

3.10 The amount of funding generated from council tax is dependent upon a number of factors:

- The annual percentage increase in council tax levels (determined by the Police Authority)
- Changes to the tax base
- The level of surplus or deficit on the District Councils' collection funds

3.11 The tax base can be determined by a number of factors, such as the total number of dwellings, the number of dwellings within each property band and the number of exempt properties. As a rule, the tax base tends to increase year on year as more properties are built. This means that more funding should be available overall, but the increased population will also place a greater burden on our service delivery capability. The government allows for an increase in the level of tax base when allocating grant through the funding formula.

3.12 It was envisaged that the economic downturn would impact upon the tax base, as the rate at which new housing stock was produced would slow down. On that basis the financial forecast has included an increase of only 0.1% per annum in the tax base. In fact, the tax base in Norfolk increased by 0.7% in 2010-11 and will increase by 0.9% next year. Given these actual increases, and having consulted with the county council, the assumed annual increase in the tax base from 2012-13 onwards has been revised to 0.5%.

3.13 District Councils calculate their council tax income each year based upon the estimated number of dwellings and estimated collection rates. Any variation between actual and estimated income is recorded in the district collection fund. Any surplus or deficit on the collection fund must be allocated between the District Council, the County Council and Police in proportion to their share of the council tax take. In recent years there has tended to be a surplus on the collection fund.

3.14 The main factor impacting upon council tax income is the annual determination of the council tax level by the Police Authority. The government has taken an approach to minimising the increase in council tax on households for 2011-12 by offering local authorities and police authorities grant support where they operate a council tax freeze next year. This grant support has been confirmed for a 4 year period so that the effect of the grant in 2011-12 will not be reversed in the following years. More information on this initiative is provided in the specific 2011-12 budget section later in the report.

3.15 The Authority has indicated that it wishes to freeze council tax next year and take the specific grant available. Going forward it is difficult to predict likely council tax levels given the political and economic environment. Taking a prudent approach, and with advice from the Treasurer, the financial plan assumes no increase in council tax in 2012-13 and a 1.5% increase in each of the following 2 years. This should not be taken as determining policy; it is merely an assumption used for planning purposes

Fees and charges

- 3.16 The Constabulary charges for providing a number of specific services. In most cases rates are set at a statutory level. Examples include the issue of firearms certificates and accident reports. The Constabulary also charges for policing certain events on a cost recovery basis, for example football matches. Part of our funding is received from local authority partners to support specific initiatives. Examples include the funding of community safety posts through county council allocated funding. Again, this is on a cost recovery basis.
- 3.17 The Constabulary has been successful in generating additional income through specific initiatives such as vehicle servicing and grant funding. However, the level of income generated by these activities is modest in comparison to the overall budget.

Spending Plans and Commitments

- 3.18 Spending levels throughout the Constabulary are reviewed on a regular basis. The starting point for review is the current base budget. The forecast then picks up changes to the revenue budget arising from known commitments, changes in external funding and inflation. In accordance with government guidance, it is assumed that there will be no pay increase in 2011 or 2012, other than a relatively small increase for those earning below £21,000. Thereafter, a pay increase of 2% per annum has been assumed for the following 2 years. Non pay inflation has been assumed at 3% per annum overall, although more specific allocations are made for goods and services where appropriate.
- 3.19 Commitments for 2011-12 are picked up in section 10 and Appendix A of this report. A significant additional commitment of over £1 million has been built into 2012-13 to reflect the full year cost of operating the Police Investigation Centres under the PFI agreement.
- 3.20 In recent years the budget proposals have included significant levels of savings that have been used to either balance the budget or reinvested into front line policing. In order to meet the financial challenges ahead, this report identifies specific saving proposals for 2011-12 and outline proposals for the following 3 years. The emphasis in this instance is very much on balancing the budget and there will a reversal of some of that previous investment. Further details are provided later in the report.

4. FINANCIAL FORECAST AND STRATEGIC DIRECTION

- 4.1 An analysis of the 2011-12 revenue budget proposals is provided in section 10 of this report. However, the 2011-12 budget must be seen in the context of the service and financial planning environment over more than one year. An estimate has been made of the likely income and expenditure requirements of the Authority over the medium term, based upon current and future commitments and certain financial assumptions. This includes the main funding assumptions noted in section 3 above.
- 4.2 As stated earlier in the report, the estimated budget shortfall in August 2010 was around £35 million. This used a set of assumptions based upon the latest

information at that time. The revised estimated budget shortfall following the settlement announcement in December 2010 has been calculated at around £24.5 million. The reduction from £35 million to £24.5 million has been affected by the following factors:

- The earlier assessment assumed a grant reduction of 6% per annum over the 4 year period. Although the actual / provisional reductions are approximate to this for the first 2 years, the assumption for the latter 2 years is now a grant reduction of 2% and 1% respectively.
- The earlier assessment assumed no council tax increase for 2011-12. The government has now announced council tax grant support of £1.4 million for next year.
- The assumed tax base increase has been updated from 0.1% per annum to 0.5% per annum
- Commitments and spending proposals have now been detailed, including a significant reduction in the planned Long Term Estates Strategy programme

4.3 A summary of the assumptions used in the forecast is provided in section 7 of this report.

4.4 Based upon the use of the Budget Support Reserve as anticipated in August 2010 (as per the report to the Police Authority), the estimated budget shortfall can be profiled as follows:

	2011-12 £m	2012-13 £m	2013-14 £m	2014-15 £m
Base Budget	* 152.6	148.6	142.3	141.7
Changes to Base	0.5	3.0	4.5	6.0
Total Spending Requirement	<u>153.1</u>	<u>151.6</u>	<u>146.8</u>	<u>147.7</u>
Less Estimated Funding	148.6	142.3	141.7	142.1
Estimated Budget Shortfall	<u>4.5</u>	<u>9.3</u>	<u>5.1</u>	<u>5.6</u>

* Opening base budget for 2011-12 has been revised to include the specific grants absorbed into general grant

4.5 The Constabulary has and is driving out significant budget savings. The table above indicates that the Authority needs to make savings of £4.5 million in 2011-12. In the event, the Constabulary has identified savings of £10.7 million (additional to those already built into the forecast from last year). Furthermore, there are anticipated one off savings of some £2 million from 2010-11 (see separate budget monitoring report).

4.6 The use of the Budget Support Reserve is critical in determining the financial strategy. The profile of the revised use of the reserves is illustrated in Appendix C. The profile assumes that the reserve will be fully used up by the end of March 2015:

- 4.7 This scenario would leave a significant shortfall of almost £7 million in 2015-16 as the amount of the budget supported by reserves would need to be reduced in order to balance. The scenario at this stage is illustrative and there is much uncertainty around what will happen to future funding levels and spending commitments. In reality, the strategy will be adjusted (and extended on a rolling basis) as information becomes firmer and the use of reserves smoothed out to avoid such a significant shortfall.
- 4.8 The budget modelling has made assumptions on future levels of recruitment curtailment and future years do not fully take into account the potential savings here. This will need to be examined later by the Authority. The effect of fully taking into account all moratorium savings will be to significantly reduce the shortfall.
- 4.9 Even with the use of reserves, the scale of the financial challenge is significant. To help meet this, the Constabulary has established a number of work streams under the Challenge Programme banner:
- Business Support Review – a 4 year programme designed to create a shared services partnership that will provide back office functions such as HR, Finance and ICT jointly to Norfolk and Suffolk
 - Operational Collaboration – establishing shared criminal justice, custody and custody investigation units under a Justice Services Command to provide services jointly to Norfolk and Suffolk to build upon the joint Police Investigation Centres implementation plus reviewing the opportunities in the control room and call handling
 - Protective Services Collaboration – building on the work already undertaken to join specific protective services functions to establish a joint Protective Services Department under a Joint Head and to deliver some functions at a regional level where practical
 - Norfolk Change Initiatives – reviewing the Norfolk Policing Model to provide a robust structure going forward that can continue to meet the needs of the public but with fewer resources and ongoing reviews of all budgets, particularly non pay and including estates requirements
- 4.10 All collaborative initiatives are being co-ordinated and overseen by a joint Programme Management Office with shared resources led by an Assistant Chief Constable.
- 4.11 The Programme Management Office has made an assessment of the savings that might be generated from collaborative initiatives. It must be stressed that this is a high level summary and does not include some aspects of the Protective Services and Justices Services Departments which have still to be evaluated. The figures below relate to Norfolk only and include both officer and staff budgets. Assessments of staff savings have been built into the financial forecast, whilst savings on police officers are picked up within the general reduction through normal turnover. The total estimate to date is £5.9 million. In effect, the savings shown below will be subject to variation in amounts and timing as detailed work is undertaken as projects are finalised and implemented.

	2011-12 £000	2012-13 £000	2013-14 £000	2014-15 £000	Total £000
Protective Services	300	100			400
Operational	100	100		400	600
Business Support	1,300	1,900	100	1,600	4,900
Total	1,700	2,100	100	2,000	5,900

4.12 Over the period from 1 April 2010 to 31 March 2015, for financial modelling purposes only, the following reduction in officer, PCSO and staffing numbers has been taken into account in the projected budgetary forecasts. It must be emphasised that the moratorium on the recruitment of all officers and staff needs to be maintained.

- Police officers 150 (9%)
- PCSOs 45 (18%)
- Police staff 226 (20%)

4.13 This reduction in officer, PCSO and staff numbers still leaves a funding shortfall at the end of March 2015 of some £7 million. Unless other savings can be identified (the majority of the Constabulary's costs are pay related), the projected reductions for police officers, PCSO and police staff numbers will have to be further reduced. Hence the above figures need to be treated with considerable caution. The actual position could show greater reductions beyond these numbers.

4.14 A financial forecast covering the forthcoming 4 years can only ever be indicative, since there will inevitably be changes to assumptions and circumstances, some of which will be outside the control of the Authority. The Constabulary is now in a period of significant change and this makes predicting outcomes 4 years hence even more challenging. The financial strategy offers a potential solution to match resources to estimated funding whilst continuing to deliver value for money to those who use our services. The strategy is indicative and must remain flexible in order to best meet changing circumstances as they arise. All of this will be kept under review.

5. **CAPITAL PROGRAMME**

5.1 The proposed outline capital programme to 2014-15 was reviewed in detail by the Capital Assets Committee at its meeting on the 2 February 2011. Since that meeting, the programme has been amended slightly for vehicle replacement costs and updated following a more accurate assessment of ICT costs for the Police Information Centres. A contingency sum of £1.5 million spread over 3 years has been added for investment in ICT systems resulting from collaboration with Suffolk. Members of the Capital Assets Committee have received regular progress reports throughout the year

5.2 The capital programme plays an integral part in delivering the infrastructure that enables the Constabulary to maintain and improve its operational performance. The revenue consequences of the capital programme have been taken fully into account wherever they are known or assessed.

Outline Spending Plans

- 5.3 The programme is divided into building related schemes and ICT, vehicle and equipment related schemes. The programme for building related schemes includes an allowance for the completion of current works such as Earlham. Previously, the programme included identified schemes to allow for the modernisation of the police estate within the Long Term Estates Strategy (LTES). The police estate still has buildings which need to be adapted or replaced in order to meet current requirements, e.g. existing custody facilities will all become redundant during 2011. However, plans need to be tempered in respect of affordability. As part of the Challenge Programme, the Constabulary is reviewing the Norfolk Policing Model. This work is still in progress and any outcome is likely to have an impact upon estate requirements going forward. Consequently it is not possible to identify firm spending proposals on land and buildings at this stage. Rather, a revised sum of £5.5 million, net of potential capital receipts, has been included as a contingency, comprising £1m in 2011-12 and £1.5 million in each of the following 3 years. The contingency is based upon an indicative scaled down version of the LTES and indicative timing of works.
- 5.4 The programme for ICT, vehicle and equipment related schemes is mainly a continuation of existing business and focuses on the replacement of assets which are past their useful life. The cost of the replacement programme, particularly for ICT, has reduced considerably from last year's forecast as longer use is made of our current assets.
- 5.5 The proposals include some one-off expenditure for specific items:
- A voltage optimiser for the main OCC building designed to reduce electricity consumption significantly and identified through our draft Carbon Management Plan. There is an indicative 3 year payback timescale and savings will be picked up in future revenue budgets. (2011-12)
 - An analysis tool designed to improve the quality of information provided around crime. This results from a business case which identified payback within three years through requiring fewer analysts. (2011-12)
 - A contingency to allow for further information management initiatives that may arise locally, regionally or nationally. (2011-12)
 - Replacement hardware for the NSPIS Custody and Case Preparation System at the end of its useful life. This is in line with advice from the NPIA which indicates that the replacement Athena system will not be operational by the time the current NSPIS product is due to finish. The NSPIS product will need to be refreshed to extend its use until Athena is introduced. (2012-13)
 - A contingency to allow for investment in ICT systems in order to collaborate more fully with Suffolk, as recommended in the Business Support Review. (2011-12 onwards)

5.6 The table below summarises the outline capital programme over the medium term. Appendix B provides a more detailed analysis of the spending plans. The programme makes assumptions about spending levels in the current year for those schemes that straddle 2010-11 and 2011-12. Any adjustment to planned spending across the two years as a result of timing of works will be picked up as part of the 2010-11 outturn report.

	2010-11 £000	2011-12 £000	2012-13 £000	2013-14 £000	2014-15 £000
Building Schemes	3,175	1,484	1,500	1,500	1,500
ICT/Vehicle/Equipment Related	3,184	5,906	2,660	2,199	1,728
Total	<u>6,359</u>	<u>7,390</u>	<u>4,160</u>	<u>3,699</u>	<u>3,228</u>

Outline Funding

5.7 Funding of the capital programme is provided from a number of sources. Building schemes tend to have a longer life span, typically up to 50 years. As a general rule, these will be funded from capital receipts from buildings that are being replaced and from long term borrowing.

5.8 Vehicles and equipment tend to have a shorter lifespan, typically 3 to 10 years. As a general rule, these items will be funded from capital grant or specific contribution. However, the ongoing replacement cost of vehicles and ICT assets and the required investment in collaborative initiatives is greater than the level of capital grant received in any one year. This is being offset at present by using previously accumulated capital grant, but the forecast does assume that some shorter term borrowing of 10 years duration will be required from 2011-12 onwards.

5.9 The following funding sources have been identified for the outline capital programme. Practically, this will be updated wherever there are changes to the programme. Also, funding will move with the asset whenever there is slippage in the programme.

	2010-11 £000	2011-12 £000	2012-13 £000	2013-14 £000	2014-15 £000
Capital Receipts	606	820	200		
Capital Grant *	3,070	4,003	1,917	1,300	1,300
Borrowing **	2,494	1,264	2,043	2,399	1,928
Other Specific Contributions	189	1,303			
	<u>6,359</u>	<u>7,390</u>	<u>4,160</u>	<u>3,699</u>	<u>3,228</u>

* These figures reflect the use of previously awarded grant funding

** See paragraph 5.10 below

5.10 Interest rates for borrowing since 2009-10 have been much higher than those obtainable through deposits. Consequently, since that time the decision has been

taken to borrow “internally” in the first instance. That is, payment for the capital assets was found from our temporarily liquid funds. The situation will be monitored closely and borrowing may be deferred again if this is in the interests of the Authority and cash flow arrangements allow.

6. GENERAL BALANCES, EARMARKED RESERVES AND PROVISIONS

6.1 The Authority’s reserves consist of two main categories:

- General Balances – these are held to enable the Police Authority to manage unplanned or unforeseen events. In forming a view on the level of General Balances, account is taken of the level of financial control within the organisation, comparisons with similar bodies and the risk of unforeseen expenditure occurring, such as for major operations.
- Earmarked Reserves – These are reserves that are held for a specific purpose, whereby funds are set aside for future use when that specific purpose arises.

6.2 The Police Authority complies with the definition of reserves contained within CIPFA’s Accounting Code of Practice.

6.3 General balances and earmarked reserves play a vital role in the financial management and financial standing of the Authority. The current policy of the Authority is to maintain general balances at around 3% of net revenue expenditure. This strategy maintains that position.

6.4 Through sound financial management, the Authority has been able to set aside earmarked reserves in recent years to meet future spending needs. Two in particular are critical to the financial strategy:

- Budget Support Reserve
- Invest to Save Reserve

6.5 The Budget Support Reserve has been discussed in detail in Section 4 of this report.

6.6 The Invest to Save Reserve was established to fund one off costs associated with the Constabulary’s extensive business change programme. It was envisaged that £1.5 million would be left in the Reserve as at March 2011. However, as a result of the anticipated savings in 2010-11, it is proposed that £0.5 million be transferred into the Invest to Save Reserve making £2 million in total.

6.7 The modernisation programme will see further reductions in posts in future years in order to fund the budget shortfall, including from recommendations of the Business Support Review. Although every effort will be made to redeploy staff, it is inevitable that some will become redundant. It is difficult to ascertain the actual level of one off costs that will result because payments will vary according to the individual circumstances of staff who leave and from which force they leave. However, the £2 million Invest to Save Reserve is considered at this stage to be a reasonable amount to offset redundancy, pension strain and protected pay costs over a 4 year period of implementation. As with all reserves, the position will be monitored closely on an ongoing basis.

- 6.8 A forecast of the use of balances and reserves is shown in Appendix C. The reserves have been risk assessed to test that they are at suitable levels. The closing balances for 2010-11 are dependent upon decisions taken by the Authority as part of this report and the Budget Monitoring report elsewhere on this agenda and the final budget outturn for 2010-11. Appendix C includes the proposed changes to the Budget Support Reserve and the Invest to Save Reserve as detailed in the report.
- 6.9 As a result of the risk assessment, it is felt that police pension costs are adequately covered in the base budget and it is proposed to transfer the current balance of £300,000 into the Budget Support Reserve
- 6.10 The strategy envisages earmarked reserves being run down over the medium term. This policy will need to be monitored carefully to ensure that resilience is maintained, for example in the level of funds set aside for operational contingencies. As some reserves are used, they may need to be replenished in subsequent years.

Review of earmarked reserves

- 6.11 The following is a summary of the purpose of the Authority's earmarked reserves.
- OCC Unitary Charge The reserve represents the excess of PFI government grant set aside over and above the unitary charge for the OCC building at Wymondham during the early years of the contract. It was intended that the reserve would be written off over the remaining life of the contract as the PFI grant reduced year on year. However, changes to the grant payment mechanism now mean that there will be a substantial reduction in grant in 2011-12 and that this level of grant will be maintained thereafter. Overall the payments due to the Authority will remain the same. It is now intended that the reserve will be used over the next 3 years in order to smooth the impact of the 2011-12 reduction.
 - Budget Support Used to support the base budget to help offset significant budget reductions.
 - Invest to Save Used to support one off investment on organisational change and projects that will generate future cost savings and benefits.
 - Operational Contingency Used to support the cost of major operations where they exceed the base budget provision.
 - Insurance Allows for anticipated future claims arising from current activity which are not covered in the base budget. The level of reserve is in line with recent independent actuarial reviews of our arrangements.

- Job Evaluation Allows pay protection for a period of two years for staff downgraded as a result of the job evaluation review.
- NPA Allows for additional capacity and resilience and enhanced communications.

Provisions

- 6.12 In accordance with accounting requirements, provisions have been set aside in the accounts for the payment of liabilities which have been incurred but which are uncertain as to the final amount or the timing of payment. Primarily, this will be for outstanding insurance liabilities. Provisions will be reviewed as part of the 2010-11 outturn.

7 RISK ASSESSMENT & SENSITIVITY ANALYSIS

- 7.1 Risk management is a key consideration of all aspects of our business. The Authority and Constabulary have a combined risk management strategy. Risk management is embedded throughout the organisation and is an integral part of the decision making process. Local risk registers are in use throughout the Constabulary and a process exists for feeding significant risks to the corporate level. The corporate risk register is updated on an ongoing basis and presented for review to the Senior Management Team and to the Scrutiny & Audit Committee on a regular basis. A dedicated risk manager is in place to support the process.
- 7.2 Inevitably, in any plan or longer term forecast, there will be an element of risk. However, the financial standing of the Authority is sound. Balances have been set aside at around 3% of net revenue expenditure. Earmarked reserves have been set aside for other contingencies. The Budget Support Reserve will be spread over a number of years so as to smooth the impact of tightening financial settlements.
- 7.3 Areas of risk related specifically to the 2010-11 budget proposals are explored in section 13 of this report as part of the Treasurer's legal requirement to report to the Authority.
- 7.4 The current economic climate adds to any uncertainty about the future. Certain assumptions have been built into the financial plan and these may be subject to change. The following analysis considers how sensitive the forecast may be to changes to these assumptions.
- 7.5 The following assumptions have been made in the financial model. These will be kept under close review and updated as more indicative information becomes available.

	2011-12	2012-13	2013-14	2014-15
Government grant	-5.1%	-6.7%	-2.0%	-1.0%
Council tax base increase	0.9%	0.5%	0.5%	0.5%
Collection fund surplus	£718K	£150k	£150k	£150k
Council tax charge	0%	0%	1.5%	1.5%
Pay awards - officers	0%	0%	2.0%	2.0%
Pay awards - staff	0%	0%	2.0%	2.0%

Non-pay inflation (average)	3.0%	3.0%	3.0%	3.0%
Borrowing (long term)	5.5%	5.5%	5.5%	5.5%
Borrowing (medium term)	4.5%	4.5%	4.5%	4.5%
Investments	1.0%	2.0%	2.0%	3.0%

The figures in bold are fixed and not subject to potential fluctuation.

- 7.6 The following table identifies the potential changes to the annual budget (up or down) given stated variations to the assumptions.

	Variance	Variance £000
Government grant	0.5%	480
Tax base increase	0.1%	60
Collection fund surplus	£100k	100
Council tax charge	0.5%	300
Pay awards – officers (full year impact)	0.5%	400
Pay awards – staff (full year impact)	0.5%	230
Non-pay inflation	0.5%	130
Borrowing (long term)	* 0.5%	-
Borrowing (med term)	* 0.5%	-
Investments	0.5%	80

* Relates specifically to 2011-12, as changes will only impact upon new borrowing which will be different from year to year

- 7.7 Clearly, the sensitivity analysis shows that planning could be skewed by actual results being different from the assumptions. The figures for 2011-12 are less material in terms of the overall budget. However, the potential for variation increases thereafter, particularly in respect of government grant and pay awards.
- 7.8 Further to the above, there is a risk of not delivering the savings plans for 2011-12 and beyond. The savings for 2011-12 have been risk assessed and will be removed from the budgets allocated at the start of the year. Some of the savings result from a vacancy freeze and depend upon assumed turnover levels. As with these and all future saving proposals, circumstances can alter with regard to planning assumptions. Continued strong financial management will help to mitigate such risks.

8. **EFFICIENCY SAVINGS**

- 8.1 Police Authorities were advised of new efficiency planning requirements as part of CSR 07. From 2008-09, the Authority has set a cashable efficiency savings target of 10.3% of gross revenue expenditure over the period 2008-09 to 2010-11. Carry forward of cashable savings from the previous efficiency regime achieved over and above the then target is allowed. The latest forecast suggests that actual efficiency savings will equal 13.5%.
- 8.2 In order to achieve the further cash savings requirement over the next 4 years the Authority and Constabulary have put in place a number of value-for money

efficiency, productivity and savings measures which include collaboration with Suffolk Police Authority and Constabulary and other forces and agencies, the implementation with Suffolk of a Business Support Review, and a Challenge Programme with various work streams aimed at driving out VFM savings and reducing costs. There are governance processes in place to monitor and review the achievement of savings from all these measures.

- 8.3 Planned cash savings over the next 4 years are incorporated and detailed in this report and any the delivery of agreed savings requirements will be monitored at every Police Authority meeting. The Authority will assess the achievement of efficiency over the next 4 years within a key priority to sustain financial stability. This will be monitored by reference to the Audit Commission's themed approach to assessing value for money.
- 8.4 The government has determined that efficiency information will no longer need to be included on the council tax bill.

PART II - BUDGET REPORT 2011-12

9. BUDGET PROCESS AND CONSULTATION

- 9.1 The budget meeting is the public forum for members to debate the budget and to establish spending and council tax levels for the following year. However, those decisions are the consequence of a longer term process involving consideration by various parts of the organisation, including members. The Authority needs to be satisfied that the budget process has been open and informative, particularly with the need to identify substantial levels of efficiency savings.
- 9.2 The budget proposals as presented here have been through a rigorous process of internal assessment over a number of months. Initially, this involved engagement with Responsible Budget Officers to realise the potential for budget savings. All items considered for growth were identified through the corporate risk register. No individual bidding process was undertaken. All savings and development proposals were risk assessed. Thereafter, the proposals were scrutinised and sifted by the executive portfolio heads, the Chief Officers' Group and officers and members of the Police Authority.
- 9.3 In line with past practice the Police Authority has been kept abreast of developments throughout the process, including a finance seminar in December and in a strategic and financial planning seminar in mid January. At this meeting, members considered the budget issues in some detail and discussed possible options for delivery of next year's service plans. Indicative funding, cost and savings proposals presented at that time have now been firmed up. The Lead Member for finance, the Treasurer and the Chief Executive have been involved throughout in the construction of the budget. In particular there has been detailed scrutiny by the Police Authority of the level and nature of saving proposals by the Constabulary particularly in the light of in-year budget reductions imposed by the in-coming Coalition Government, and further significant changes to central government support for policing services in the light of the Comprehensive Spending Review.
- 9.4 In accordance with the requirements of Section 134 of the Local Government Act and as required under Regulations, the NPA has an obligation to consult openly with the Business Rate Payers, as well as a general obligation to consult the public. It collectively discharges those responsibilities via an open consultation event held at the OCC. To alert the business community and the public, the open event is advertised in the local Press. In addition, 1250 personalised invitations are sent to businesses and other organisations, and to stakeholders such as Parish & Town Councils, all County and District councillors. We also place this on the NPA website with an ability to provide comment on-line or via reply-paid envelopes. Copies of the letter, enclosure and feedback form are available from the Police Authority office and the Police Authority website on www.norfolk-pa.gov.uk .
- 9.5 The consultation meeting was held on 20th January and 77 people attended. The focus of the meeting was to explain briefly how the Authority and Constabulary had performed against the plans made last year and to outline the key funding constraints for the future, as set out in this report. In the presentation, the Chief Constable and Chairman of the NPA stressed their determination to seek to

maintain the current performance levels, despite the significant impact of front-loaded reductions in central budget support and the continuing economic uncertainty.

- 9.6 The Chairman indicated that, given the inclusion of support to the tune of a 2.5% Council Tax increase in the reduced central funding, the NPA would be likely to freeze the police element of the precept to the same level as 2010/11.
- 9.7 There was significant concern at the likely impact of budgetary cuts on the frontline policing service, and of the consequential issues likely to arise from the impact of the wider reductions in the public sector generally.
- 9.8 There were a number of questions linked to budget and other policing issues that were submitted and the Chief Constable addressed those under broad themes.

10. THE REVENUE BUDGET 2010-11

Government Settlement

- 10.1 As detailed in section 3 earlier in the report, the government has announced the general revenue grant allocation for Norfolk Police Authority for next year of £90.786 million. This is a 5.1% reduction on the revised grant figure for 2010-11 (which includes some specific grants absorbed). The Authority will also receive a Neighbourhood Policing Fund grant of £3.956 million. The full security related grant has still to be announced.
- 10.2 The government has used the floor damping scheme to ensure that the cash reduction in formula grant for all police authorities next year is 5.1%. The floor damping element is funded by reducing the formula allocation for those police authorities who are above the floor. Thus, the scheme is self financing within the overall police allocation. In effect, some authorities are paying to help others. Given the current formula distribution, removal of the floor in 2011-12 would result in a funding increase for Norfolk of £3.036 million. In previous years Norfolk has benefited from the damping mechanism by having its formula allocation increased to the floor. The position has now been reversed due to changes made in the allocation of formula grant between police authorities applicable from 2011-12.
- 10.3 Payment of the Neighbourhood Policing Grant is dependent upon having a minimum number of Police Community Support Officers in place. Norfolk far exceeds the required minimum level and will not be impacted by the reductions in PCSO numbers through normal turnover as detailed earlier in the report.

Budget Build

- 10.4 The 2011-12 budget process has, in line with recent years, been extremely challenging. Draft spending plans have been formulated. These are summarised below. Appendix A to this report provides a more detailed analysis of the changes to the 2010-11 base budget. The illustrative budget requirement is based upon a standstill council tax level.

	£000
Approved budget 2010-11	146,693
Loss of specific grants into general grant	5,934
Revised Base Budget	<hr/> 152,627
Inflation	2,297
Commitments	1,138
External funding changes	1,583
Commitment budget	<hr/> 157,645
Budget reductions and savings	* (11,192)
Organisational developments	216
Changes in appropriations to balances and reserves	1,951
Illustrative Budget Requirement with council tax freeze	<hr/> 148,620 <hr/>

* Comprised of £0.449 million identified in 2010-11 financial strategy and £10.743 million additional savings

- 10.5 The approved budget has been adjusted to allow for the specific grants absorbed into the general grant. In effect this is a loss of income to the budget which will increase net expenditure. The revised budget of £152.627 million equates to the “alternative notional amount” as notified by the Department for Communities and Local Government, and by which it will the assess the change in the budget from 2010-11.
- 10.6 The commitment budget has increased by some 3.3% when compared to the base budget. This allows for the full year effect of the September 2010 pay award in 2011-12 but assumes only a small contingency for pay increases to the lower paid in September 2011. It also allows for specific issues such as the net additional costs of the Police Information Centres as they come on stream and adjustments picked up through current year monitoring.
- 10.7 The external funding changes allow for the loss of in-year grant funding of £1.256 million during 2010-11 and an estimate for loss of security grant funding. It also allows for a loss of PFI grant of £1.370 million for the OCC due to a re-profiling of the payments over the remaining term of the contract. The overall payments will remain the same, but the Authority will have to absorb the loss of grant now and benefit in the latter years of the contract. In order to ease the impact of the grant reduction, it is proposed to release the OCC Sinking Fund Reserve over the next 3 years.
- 10.8 Organisational development proposals are modest given the current environment; nevertheless they pick up on important issues. The Constabulary has been very proactive in recruiting specials with increased numbers attained this year and further increases planned for next year. An additional £176,000 will allow for uniforms, kit and payment of allowances. An investment in carbon management schemes of £40,000 will allow a number of small initiatives to be pursued, with the intention that they will be self financing within a reasonable payback period as well

as helping the environment. The schemes were considered by the Carbon Management Programme Board which has member representation and are included in the draft Carbon Management Plan for consideration by the Police Authority.

- 10.9 Savings proposals total £11.2 million, equivalent to around 7% of the revised base budget. Around £4 million arises from the moratorium on police officer and PCSO recruitment, reflecting actual vacancies as at January 2011 and assumed turnover until March 2012. A further £1 million arises from an estimate of staff vacancies and loss of posts next year. The remaining £6 million has come from the full year savings arising from initiatives implemented in 2010-11, specific departmental reviews and corporate decisions and includes some further staff posts. All the savings proposals have been risk assessed.

Council Tax

- 10.10 The government has confirmed that it intends to work with authorities to meet its commitment to deliver a council tax freeze in 2011-12. The government will provide grant support to authorities who maintain their council tax levels at current rates. The guidance states that "If the authority sets its basic amount of council tax for 2011-12 at a level which is no more than its basic amount of council tax for 2010-11, it will be eligible to receive a grant equivalent to a 2.5% increase in its 2010-11 basic amount of council tax multiplied by the authority's tax base for 2011-12". In simple terms, this means that the impact would be the same as if the Authority had increased council tax in 2011-12 by 2.5%.
- 10.11 The Spending Review concluded that funding can only be provided to support a council tax freeze for 2011-12. However, the government has announced that it will continue to provide supplementary funding for the remainder of the Spending Review period to compensate for the council tax income foregone in 2011-12. No mention is made of whether this funding will continue thereafter.
- 10.12 The scheme is voluntary. However, members need to be mindful of government capping powers if they choose to increase the council tax level. The government does not set pre determined capping levels but the messages in its promotion of the council tax freeze are evident. Capping powers could take a number of forms, the most damaging being that of retrospective capping, meaning that the budget would need to be recalculated and re-billed. This would be a costly exercise with current estimates in excess of £1 million. Any increase in council tax would mean that the Authority was not entitled to claim the available grant.
- 10.13 The budget figures for 2011-12 have been calculated on the assumption of a council tax freeze. Proposed council tax levels are detailed in Appendix G to this report.

11. WORKING IN PARTNERSHIP

- 11.1 The Authority and Constabulary have been involved for a number of years in a series of strategic county level partnerships and other local partnerships, in addition to the innovative partnership arrangements being developed with Suffolk Constabulary.

- 11.2 However, the funding reductions impacting upon the Police Authority also apply to our partners. The whole of the public sector is undertaking a critical review of the type and level of services that it provides. Partnership arrangements are an integral part of this but can be more complex to resolve because there are 2 or more decision making bodies involved. Due to these complexities, negotiations are still ongoing with partners over the Safety Camera Partnership and those schemes previously funded through the now defunct Area Based Grant and BCU Fund.

12 CAPITAL PROGRAMME

- 12.1 The outline capital programme over the next few years is discussed in section 5 of this report. More details of the programme, including proposals for 2011-12, are included in Appendix B. Proposed expenditure for 2011-12 is £4.934 million. In addition, slippage of £2.456 million is anticipated from 2010-11, giving a revised programme of £7.390 million.
- 12.2 The programme for 2011-12 includes contingencies for future developments for the LTES (£1 million), Information Management (£100,000) and Collaboration (£600,000). No detailed proposals are available at present in these areas. All new projects will be addressed on their own merits by way of a cost benefit analysis, before being submitted to the Authority for consideration for charging against the contingency.
- 12.3 The Authority is asked to approve the revised capital programmes for 2010-11 and 2011-12, including carry forward requirements, as detailed in Appendix B. Final carry forward amounts will be subject to change and any adjustment will be picked up as part of the 2010-11 outturn.

Capital grant

- 12.4 Each Police Authority receives a capital grant which must be used to support capital expenditure. The Home Office has confirmed the capital allocation for 2011-12 of a capital (cash) grant of £1million. This is rounded to the nearest hundred thousand pounds and final figures are awaited. Formerly, allowance was made for an assumed level of borrowing that would attract support for debt repayment and be included in future funding settlements, referred to as supported capital expenditure. This has now been withdrawn from 2011-12.

Compliance with the Prudential Code

- 12.5 Police authorities now have more flexibility over capital investment in fixed assets that are central to the delivery of quality public services. Levels of borrowing can be determined locally, provided that capital investment plans 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. This is backed up by a Prudential Code.
- 12.6 To demonstrate that these objectives have been fulfilled, the Prudential Code sets out a suite of Prudential Indicators that must be determined by the Authority. They are designed to support and record local decision making and for comparison over time. They are not designed to be comparative performance indicators for different

local authorities. Details of the proposed indicators for 2011-12 are provided in Appendix D for members' consideration. Progress against the indicators will be monitored and reported during the year. The indicators can be changed during the year with the approval of the Authority.

- 12.7 A number of distinct treasury management indicators were formerly reported as part of the suite of Prudential Indicators. The revised Code of Practice for Treasury Management in the Public Sector recommends that these now form part of the Treasury Management Strategy. Accordingly, they are now incorporated in this Strategy, which forms Appendix E to the report.

13 SECTION 25 RESPONSIBILITIES

- 13.1 Section 25 of Part II of the Local Government Act 2003 places specific responsibilities on the Treasurer to report on the robustness of the budget estimates, the adequacy of balances and reserves and issues of risk. The Treasurer confirms that he can provide all the required statutory assurances.

Robustness of the Budget

- 13.2 As stated earlier in the report, the budget proposals have been through a rigorous internal process of assessment by officers and members, with particular scrutiny by the Constabulary executive officers, both individually and as a group. All the savings and development items have been risk assessed.
- 13.3 Next year will present many challenges with strategic changes likely as the Challenge Programme gathers pace. Due to the modernisation agenda started by the Constabulary in 2008, budget realignment and flexibility has become part of business as usual and this will continue for the foreseeable future. Nevertheless, a strong focus has been maintained on the overall financial position and this will also continue.

Balances and Reserves

- 13.4 Balances, reserves and provisions have been built up as part of the financial strategy of the Authority and now offer a degree of protection against future liabilities and unforeseen events. Details of forecast movements for 2011-12 are shown in Appendix C to this report. A detailed review of balances and reserves is contained in section 6 of the report.
- 13.5 The budget proposals assume that general balances will be maintained at around 3% of net revenue expenditure, in line with current policy. Earmarked reserves will be reduced over time as they are used for the purpose for which they were intended. Current planning assumes that the Budget Support Reserve will be used to support the budget over the next four years. Greater support from the reserve is dependent upon agreement to the additional proposed contribution to the reserve in 2011-12.
- 13.6 The Treasurer has considered the proposed level of balances and reserves and believes that they are adequate for the purposes for which they were intended.

Risk and the Budget

- 13.7 Risk is inherent in all functions of an organisation. Many of these risks are managed or mitigated. In respect of the budget cycle, this has been a managed process that has engaged service managers and members.
- 13.8 However, the budget is only a plan and any budget has to make certain assumptions. The main risks that may impact upon the delivery of the 2011-12 budget are noted below, many of them familiar to the public sector generally.
- Exceptional demands placed upon the service, particularly in relation to major incidents
 - Requirements of new legislation or government directives
 - Achieving the required outcomes from collaboration with other forces
 - Delivering the planned level of savings
 - Maintaining an acceptable level of performance with a shrinking resource base
- 13.9 The key to dealing with these risks is to have a robust monitoring procedure, to mitigate wherever possible and to have the ability to manage subsequent policy changes. Although there is no room for complacency, recent performance suggests that this is in place.

14 TREASURY MANAGEMENT STRATEGY

- 14.1 Government regulations require the Authority to approve an annual investment strategy prior to the start of the financial year. As a wider remit, this is incorporated within an over arching treasury management strategy. The proposed strategy is included in Appendix E to this report for members' consideration. The strategy has been discussed in detail by the Scrutiny & Audit Committee at its meeting in February.

15 MINIMUM REVENUE PROVISION STATEMENT

- 15.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 place a duty on authorities to make an amount of Minimum Revenue Provision (MRP) each year that is considered to be "prudent". The regulations are backed up by statutory guidance to which authorities are required to have regard. The guidance requires that an annual MRP statement is submitted to the Police Authority for approval. The statement for 2011-12 is recorded at Appendix F and accords with the guidance.

16 CONCLUSION

- 16.1 The Authority is asked to consider the revenue budget, capital programme and council tax levels for 2011-12 which will enable the Constabulary to continue with its modernisation programme and help prepare for the future. In formulating the budget, the Constabulary has identified significant savings.

- 16.2 In agreeing the budget, the Authority is asked to take into account the medium term issues and, in particular, the further significant likely level of savings that will be required from 2012-13 onwards.

17. IMPACT IMPLICATIONS

- 17.1 The allocation of resources in accordance with the annual budget has impact implications for all areas of business. All of these are referred to in the report except diversity and sustainability. The budget reflects potential reductions in the use of natural resources. All significant projects, business cases and policy decisions are required to be reviewed for sustainability implications.
- 17.2 On a case by case basis equality impact assessments will be completed for the specific budget reductions outlined in this paper. Recruitment curtailment will impact on the ability of the Constabulary to have staffing numbers reflective of the diverse communities in the county.

18. RECOMMENDATION/ACTION REQUIRED

- 18.1 It is recommended that the Authority:
- (i) Agrees and is mindful of the overall financial strategy set out in this report when considering the 2011-12 budget proposals;
 - (ii) Agrees the changes to the 2010-11 base revenue budget set out at Appendix A;
 - (iii) Agrees the revised capital programme for 2010-11 and the proposed capital programme for 2011-12 and agrees in principle the outline programme for the following years set out at Appendix B;
 - (iv) Agrees the proposed movements on balances and reserves for 2010-11 and 2011-12 as set out at Appendix C;
 - (v) Agrees the Prudential Indicators as detailed in Appendix D, subject to any amendments resulting from final budget decisions;
 - (vi) Agrees the Treasury Management Strategy as set out in Appendix E;
 - (vii) Agrees the Minimum Revenue Provision Statement as set out in Appendix F;
 - (viii) Agrees an overall revenue budget of £148,620,168;
 - (ix) Agrees to retain council tax levels for 2011-12 at their current rate, which means a Band D council tax of £191.16 and a Band B rate of £148.68;
 - (x) Agrees to maintain the General Balances Reserve at £4.475 million for 2011-12
 - (xi) Agrees the total payments to be collected from District Councils in 2011-12 and the Police Authority element of the council tax for each of the property valuation bands for 2011-12 as set out in Appendix G;
 - (xii) Agrees that where a surplus on collection of 2010-11 council tax has been estimated, the District Council concerned will pay to the Police Authority its proportion of the sum by ten equal instalments as an addition to the May 2011 to February 2012 precept payments as detailed in Appendix G;
 - (xiii) Agrees that where a deficit on collection of 2010-11 council tax has been estimated, the District Council concerned will receive from the Police Authority its proportion of the sum by ten equal instalments as a reduction to the May 2011 to February 2012 precept payments as detailed in Appendix G;

- (xiv) Agrees that in respect of revenue and capital expenditure provided in the 2011-12 budget, the Treasurer be authorised to make payments, to raise and repay loans and to invest funds.

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Are there Background Documents? Local Government Finance Report / Police Grant Report

Does the report contain Exempt Information? No

ANALYSIS OF BUDGET CHANGES FROM 2010-11 TO 2011-12

	£000	£000
Original Base Budget 2010-11		146,693
<u>Loss of Specific Grants</u>		
Transfer of Crime Fighting Fund specific grant into general grant 2011-12	3,214	
Transfer of Rule 2 specific grant into general grant 2011-12	2,344	
Transfer of Basic Command Unit specific grant into general grant 2011-12	<u>376</u>	
		<u>5,934</u>
Revised Base Budget 2010-11		152,627
<u>Inflation</u>		
Full year effect of pay increases in 2010-11	2,140	
Provision for pay and price increases in 2011-12	<u>157</u>	
		<u>2,297</u>
Repriced Base Budget		154,924
<u>Continuity Commitments</u>		
Rent & housing allowance reduction	(236)	
Increase in National Insurance contributions	148	
Support staff pension rate increase	159	
Net increments	666	
Fuel budget shortfall based upon 2010-11 usage	110	
Loss of NVQ training income for new recruits	125	
Increase in police officer injury pensions (catch up)	90	
Project teams funded previously from reserves	110	
Police National Database charges	65	
Income from seizure of assets and social marketing not sustainable	100	
Net effect of other minor variations	<u>49</u>	
		1,386
<u>Policy Commitments</u>		
End of cycle of management training programme	(354)	
Additional costs of running PICs	389	
Full year costs of Regional Collaboration	276	
Job Evaluation Scheme now covered from reserves	(500)	
Revenue consequences arising from completion of	76	

current building schemes			
Reduction in financing costs due to paring back of capital programme		(91)	
Net effect of other minor variations		<u>(44)</u>	
			(248)
<u>External Funding Changes</u>			
Reprofiling of payment of OCC PFI grant		1,370	
Loss of Rule 2 grant in-year 2010-11		1,256	
Reduction in security funding grant (to be confirmed)		334	
Implementation of Council Tax Freeze grant		(1,428)	
Net effect of other minor variations		<u>51</u>	
			<u>1,583</u>
Commitment Budget	+	3.29 %	157,645
<u>Budget Reductions & Savings</u>			
Full year effect of 2010-11 savings		(403)	
Departmental efficiencies	*	(4,976)	
Review of Special Priority Payments		(500)	
Removing Problem Solving Fund		(262)	
Business Support collaboration		(501)	
Police officer recruitment moratorium		(3,500)	
PCSO recruitment moratorium		(450)	
Staff vacancies		<u>(600)</u>	
			(11,192)
<u>Organisational Developments</u>			
Additional expenses for increase in numbers of Special Constabulary		176	
Investment in carbon management schemes		<u>40</u>	
			216
<u>Changes in Appropriations to Balances & Reserves</u>			
Increased contribution from OCC Unitary Charge			
Reserve to offset change in profiling of payment		(831)	
Additional contribution to Budget Support Reserve		2,800	
Net effect of other minor variations		(18)	
		<u></u>	
			1,951
Illustrative Budget Requirement with Council Tax Freeze			<u>148,620</u>

* Includes £833,000 identified in Business Support Review

APPENDIX B

OUTLINE CAPITAL PROGRAMME 2010-11 TO 2014-15

	2010-11 Forecast £000	2010-11 C/fwd £000	2011-12 Proposed £000	2011-12 Inc c/fwd £000	2012-13 Outline £000	2013-14 Outline £000	2014-15 Outline £000
Vehicle, Plant and Equipment							
Vehicle Replacement Programme	618	276	1,146 *	1,422	759	949	855
ICT Replacement Programme							
Applications	359		389	389	212	324	249
Desktop Services	156		176	176	264	156	156
Communications	207		192	192	92	128	125
Telephony	677		336	336	128	87	88
Business Continuity - Dereham	74			0			
Integrated Command & Control System		551		551			
Operational Equipment Replacement	182	67	255	322	255	255	255
Other Minor Projects				0			
Mobile Computing & Working				0			
PIC Related ICT	121		308 *	308			
Duties Management	18			0			
Mobile Computing & Working	150	995		995			
Balanced Scorecard	168			0			
Identity Access Management	111	123		123			
Response Policing	3			0			
Data Quality Tool	144			0			
Regional Operational Data Store	120			0			
Core Vet Software	28			0			
Website Development	4			0			
Video Conferencing	44			0			
Carbon Management - Voltage Optimiser OCC			90	90			
i2 Analysis Tool			302	302			
Information Management Contingency			100	100			
Collaboration Invest-to-Save Contingency			600 *	600	600 *	300 *	
CuCP Hardware Replacement				0	350		
Total VPE Programme	3,184	2,012	3,894	5,906	2,660	2,199	1,728

	2010-11 Forecast £000	2010-11 C/fwd £000	2011-12 Proposed £000	2011-12 Inc c/fwd £000	2012-13 Outline £000	2013-14 Outline £000	2014-15 Outline £000
Building Schemes							
DDA Compliance	25						
Electrical Works	50						
Gateway 11 Accommodation, Wymondham	1,892		40	40			
Cromer ODB	35			0			
Stalham ODB							
Thetford Safer Neighbourhoods							
Earlham	800	444		444			
Sexual Assault Referral Centre Norwich	349			0			
Bowthorpe Portacabin	24						
LTES Contingency			1,000	1,000	1,500	1,500	1,500
Total Building Programme	3,175	444	1,040	1,484	1,500	1,500	1,500
TOTAL PROGRAMME	6,359	2,456	4,934	7,390	4,160	3,699	3,228

OUTLINE FUNDING OF CAPITAL PROGRAMME 2010-11 TO 2014-15

	2010-11 £000	2011-12 £000	2012-13 £000	2013-14 £000	2014-15 £000
Capital Receipts	606	820	200	0	0
Capital Grant	3,070	4,003	1,917	1,300	1,300
Borrowing	2,494	1,264	2,043	2,399	1,928
Other Specific Contributions	189	1,303 *			
	6,359	7,390	4,160	3,699	3,228

Borrowing may be undertaken internally in the first instance from temporary cash resources, dependent upon the cash flow and interest rate position.

* Amended from version taken to Capital Assets Committee

FORECAST MOVEMENT IN GENERAL BALANCES AND EARMARKED RESERVES 2010-11 to 2014-15

	-----2010-11-----				-----2011-12-----					
	Opening Balance £000	Contrib'ns to Rev £000	Contrib'ns from Rev £000	Tfirs betw Reserves £000	Closing Balance £000	Opening Balance £000	Contrib'ns to Rev £000	Contrib'ns from Rev £000	Tfirs betw Reserves £000	Closing Balance £000
<u>General Balances</u>										
General	4,475				4,475	4,475				4,475
Total	4,475	0	0	0	4,475	4,475	0	0	0	4,475
<u>Earmarked Reserves</u>										
Insurance	786				786	786				786
Police Pensions	300			(300)	0	0				0
Operational Contingency	400				400	400				400
OCC Unitary Charge	2,139	(139)			2,000	2,000	(970)			1,030
PIC Unitary Charge	0		452		452	452	(18)			434
Budget Support	3,524		3,000	523	7,047	7,047		4,300		11,347
Invest to Save	1,921	(706)	785		2,000	2,000	(200)			1,800
Job Evaluation	2,700	(300)	800		3,200	3,200	(800)			2,400
NPA	189			(94)	95	95				95
Operational Contingency b/fwd	369	(369)			0	0				0
Budget Management	320	(191)		(129)	0	0				0
Total	12,648	(1,705)	5,037	0	15,980	15,980	(1,988)	4,300	0	18,292

Notes

* Reserves will be called upon as and when required. General balances will be retained at around 3% of Net Budget.

FORECAST MOVEMENT IN GENERAL BALANCES AND EARMARKED RESERVES 2010-11 to 2014-15

	-----2012-13-----	-----2013-14-----	-----2014-15-----
	Opening Balance £000	Opening Balance £000	Opening Balance £000
			Contrib'n from Rev £000
			Closing Balance £000
<u>General Balances</u>			
General	* 4,475	4,475	4,475
Total	<u>4,475</u>	<u>4,475</u>	<u>4,475</u>
<u>Earmarked Reserves</u>			
Insurance	* 786	786	786
Operational Contingency	* 400	400	400
OCC Unitary Charge	1,030	355	0
PIC Unitary Charge	434	416	(18)
Budget Support	11,347	10,747	(3,900)
Invest to Save	1,800	900	(200)
Job Evaluation	2,400	800	(800)
NPA	* 95	95	95
Total	<u>18,292</u>	<u>14,499</u>	<u>(5,273)</u>
			<u>(7,565)</u>
			<u>1,661</u>

Notes

* Reserves will be called upon as and when required. General balances will be retained at around 3% of Net Budget.

Prudential Code Indicators 2011/12, 2012/13, 2013/14

1. Background

- 1.1 The Prudential Code for capital investment came into effect on 1st April 2004. It replaced the complex regulatory framework, which only allowed borrowing if specific government authorisation had been received. The Prudential system is one based on self-regulation. All borrowing undertaken is self determined under the prudential code.
- 1.2 Under Prudential arrangements the Police Authority can determine its own borrowing limit for capital expenditure. The Government does retain reserve powers to restrict borrowing if that is required for national economic reasons.
- 1.3 The key objectives of the Code are to ensure, within a clear framework, that capital investment plans are affordable, prudent and sustainable. The Code specifies indicators that must be used and factors that must be taken into account. The Code requires the Police Authority to set and monitor performance on:
- capital expenditure
 - affordability
 - external debt
 - treasury management (now included within Treasury Management strategy)
- 1.4 The required indicators are:
- **Capital Expenditure Payment Forecast**
 - **Ratio of Capital Financing costs to Net Revenue Budget**
 - **Capital Financing Requirement**
 - **Net Borrowing for Capital Purposes**
 - **Authorised Limit for External Debt**
 - **Operational Boundary Limit for External Debt**
 - **Incremental Impact of Capital Programme on Band D Council Tax**
- 1.5 Once determined, the indicators can be changed so long as this is reported to the Police Authority.
- 1.6 Actual performance against indicators will be monitored throughout the year. All the indicators will be reviewed and updated annually.
- 1.7 Attached is a diagrammatic view of the indicators, setting out the relationship between indicators and their bases of calculation. The diagram shows for example, that the decision to finance capital expenditure from borrowing will increase outstanding debt on the balance sheet; which in turn results in interest payable on borrowing. Interest payable on borrowing is then compared with the net revenue budget to calculate the ratio of capital financing costs to net revenue budget indicator. Interest payable is also used to calculate the incremental impact on Band D Council Tax.

2. The Indicators

- 2.1 The **Capital Expenditure Payment Forecast** is detailed in Appendix B. The total estimated payments are:

	2011/12 £m	2012/13 £m	2013/14 £m
Capital Expenditure Forecast	7.390	4.160	3.699

The Authority is being asked for approval to an overall Capital Programme based on the level of capital financing costs contained within the draft revenue budget.

- 2.2 The **ratio of capital financing costs to net revenue budget** shows the estimated annual revenue costs of borrowing (net interest payable on debt and the minimum revenue provision for repaying the debt), as a proportion of annual income from council taxpayers and government. Estimates of the ratio of capital financing costs to net revenue budget for future years are:

Ratio of Capital Financing Costs to Net Revenue Budget		
2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
0.95%	1.05%	1.30%

The ratios increase over the period as new capital borrowing increases the level of outstanding debt.

- 2.3 The **capital financing requirement** represents capital expenditure financed by external debt and not by capital receipts, revenue contributions, capital grants or other sources of external funding. Estimates of the end of year capital financing requirement for future years are:

Capital Financing Requirement			
31/03/11 Estimate £m	31/03/12 Estimate £m	31/03/13 Estimate £m	31/03/14 Estimate £m
53.392	53.861	54.956	56.298

The capital financing requirement measures the underlying need to borrow for a capital purpose.

- 2.4 The guidance on **net borrowing for capital purposes** advises that:

“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Police Authority should ensure that net 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.”

Net borrowing refers to the Police Authority's total external borrowing net of any temporary cash investments. The Police Authority works within this requirement.

- 2.5 The Code defines the **authorised limit for external debt** as the sum of external borrowing and any other financing long-term liabilities e.g. finance leases. It is recommended that Police Authority approve the 2011/2012 and future years limits.

For 2011-2012 this will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

As required by the Code, the Police Authority is asked to delegate authority to the Treasurer, within the total limit for any individual year, to effect movement between the separate limits for borrowing and other long term liabilities. Any such changes made will be reported to the Authority.

	Authorised Limit for External Debt		
	2011/12	2012/13	2013/14
	£m	£m	£m
Borrowing	13.761	14.504	16.903
Other long term liabilities (OCC PFI)	27.567	27.355	27.117
Other long term liabilities (PIC's PFI)			
Safety net	4.893	4.930	5.081
Total	46.221	46.789	49.101

These proposed limits are consistent with the Capital Programme. They provide headroom to allow for operational management, for example unusual cash movements.

- 2.6 The Code also requires the Police Authority to approve an **operational boundary limit for external debt** for the same time period. The proposed operational boundary for external debt is the same calculation as the external debt limit without the additional headroom. The operational boundary represents a key management tool for in year monitoring.

Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified again. The Police Authority is asked to delegate authority to the Treasurer, within the total operational boundary for any individual year, to make any required changes between the separately agreed figures for borrowing and other long-term liabilities. Any changes will be reported to the Authority.

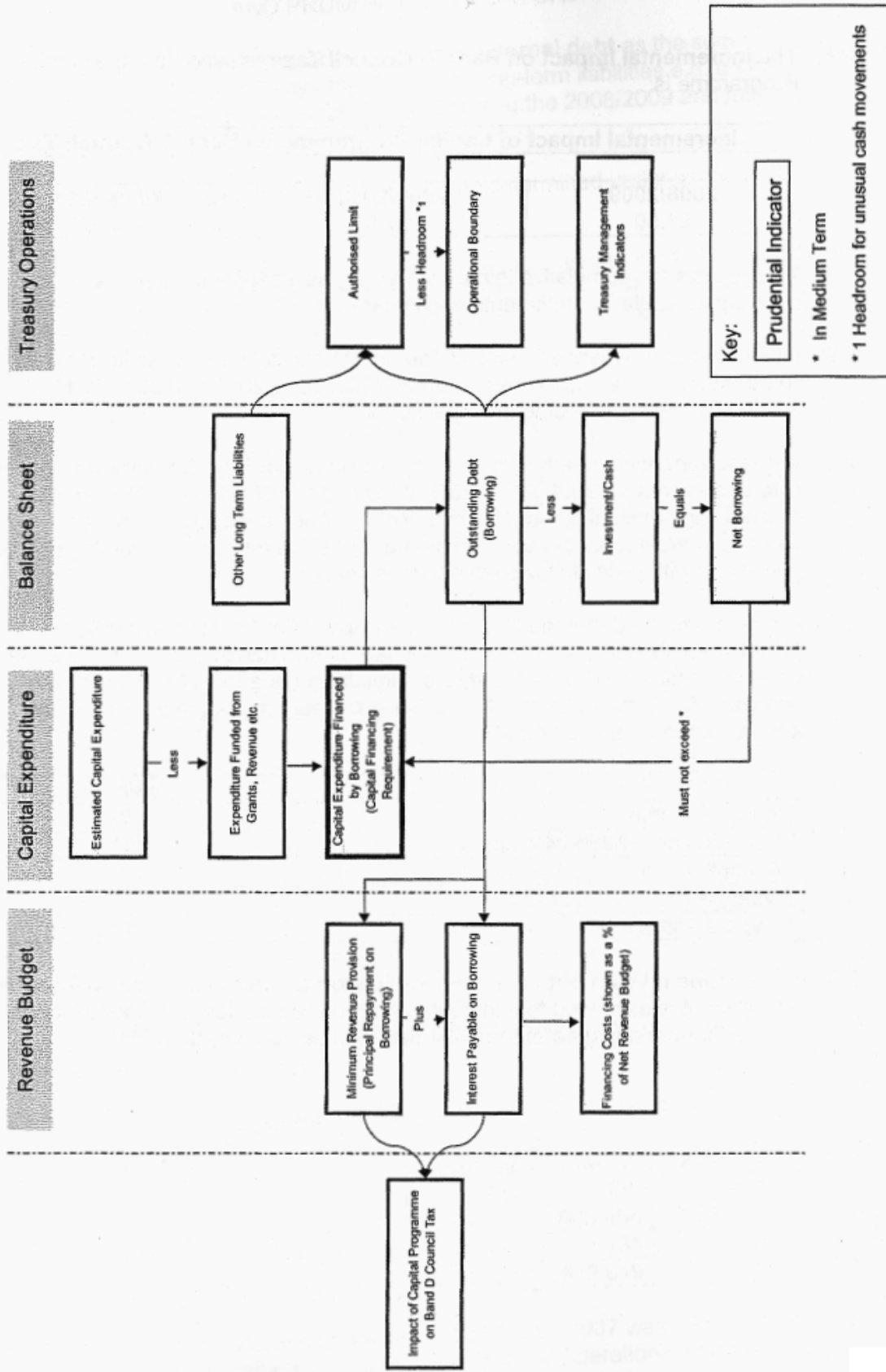
	Operational Boundary Limit for External Debt		
	2011/12 £m	2012/13 £m	2013/14 £m
Borrowing	13.761	14.504	16.903
Other long term liabilities (OCC PFI)	27.567	27.355	27.117
Other long term liabilities (PIC's PFI)			
Total	41,328	41,859	44,020

2.7 The **incremental impact on Band D Council Tax** resulting from the Capital Programme is:

Incremental Impact of Capital Programme on Band D Council Tax		
2011/12	2012/13	2013/14
£0.05	£0.07	£0.09

This reflects the cumulative impact of funding new capital schemes and associated capital commitments each year.

DIAGRAMMATIC PRESENTATION OF PRUDENTIAL INDICATORS



ANNUAL INVESTMENT AND TREASURY MANAGEMENT STRATEGY 2011-12

1. INTRODUCTION

- 1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice for Treasury Management in the Public Services (the Code) requires local authorities to produce a treasury management strategy for the year ahead. The Authority is required to comply with the Code through Regulations issued under the Local Government Act 2003.
- 1.2 Complementary to the CIPFA Code is the Communities and Local Government's (CLG's) Investment Guidance, which requires local authorities to produce an Annual Investment Strategy. This report combines the reporting requirements of both the CIPFA Code and CLG's Investment Guidance.
- 1.3 The primary objectives of the Authority's Investment Strategy are; safeguarding the timely repayment of principal and interest, ensuring adequate liquidity and generating investment yield. In the current economic and financial environment the one over-riding risk is counterparty security. Concerns over the security of some financial institutions and economic uncertainty in a number of euro-zone countries, means that investment activity will remain restricted to high credit quality UK counterparties. The Authority will continue to make best use of its cash resources by actively managing the timing of borrowing for capital purposes.

2. THE TREASURY MANAGEMENT FUNCTION

- 2.1 The CIPFA Code defines treasury management activities as "the management of the Authority's cash flows, its banking, money market and capital market transactions; the effective management of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 2.2 The Authority has delegated responsibility for treasury management decisions taken within the approved strategy to the Treasurer. Day to day execution and administration of investment and borrowing decisions is undertaken by Norfolk County Council through contractual arrangements. Day to day cash flow operations are managed by the Constabulary
- 2.3 On the 4th October 2010, ICAP Securities Limited announced its decision to transfer treasury management consultancy services provided by Butlers (a business division of ICAP) to Sector Treasury Services Limited. This followed a strategic review of the provision of consultancy services by ICAP. External treasury management consultancy services are therefore now provided by Sector under contractual arrangement until August 2011. Like Butlers, Sector provides a range of services which include:
- Technical support on treasury matters and capital finance issues.
 - Economic and interest rate analysis.
 - Debt services which includes advice on the timing of long term borrowing.
 - Debt rescheduling advice surrounding the existing portfolio.

- Generic investment advice on interest rates, timing and investment instruments.
- Credit ratings/market information service for the three main credit rating agencies (Fitch, Moody's and Standard & Poors).

2.4 Whilst Sector and the County Council provide support to the treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Police Authority.

2.5 Performance will continue to be monitored and reported to the Police Authority as part of the budget monitoring report and regularly to the Scrutiny and Audit Committee, whose members will continue to receive appropriate training.

3. SECTOR'S ECONOMIC OVERVIEW 2011-12

3.1 Short-term rates are expected to remain on hold for a considerable time. The Office for Budget Responsibility has presented a realistically downbeat view of the economy's recovery prospects over the short and medium term, projecting that growth will struggle to exceed its trend rate in the current parliament. The Government's determination to cut the size of the public sector deficit considerably more quickly than its predecessor is likely to be a drag upon activity in the medium term.

3.2 The void left by significant cuts in public spending will have to be filled by a number of alternatives – corporate investment, rising exports and consumers' expenditure. In terms of sheer magnitude, the latter is the most important and a strong recovery in this area is by no means certain. The combination of the desire to reduce the level of personal debt and continued job uncertainty is likely to weigh heavily upon spending. This will be amplified by fiscal policy tightening, outlined in the Budget and expanded upon in the 20 October Comprehensive Spending Review. Without a rebound in personal spending, any recovery in the economy is set to be weak and protracted.

3.3 The Bank of England admits that inflation will remain above target until 2012. Inflation performance remains a key risk to the future course of interest rates. Nevertheless, the perceived need to counter the fiscal squeeze via accommodative monetary policy suggests that barring a deterioration from the current situation, the MPC will be prepared to hold rates at very low levels until the latter stages of 2011.

3.4 The outlook for long-term interest rates is favorable in the near term but is set to deteriorate in the latter part of 2011, making Public Works Loans Board (PWL) borrowing more expensive. Yields will be suppressed by continued investor demand for safe haven instruments following the uncertainties and unfolding tensions within the entire Euro zone and more recently the Middle East. In addition to this, the market has been underpinned by evidence of decelerating activity in major economies and the coalition government's determination to deal with the parlous state of public sector finances. These two factors will restrict any deterioration in gilt market performance in the near term.

3.5 However, while the UK's fiscal burden will almost certainly ease, it will be a lengthy process and deficits over the next two to three financial years will still require a very heavy programme of gilt issuance. The latest Bank Inflation Report suggests the

market will not be able to rely upon Quantitative Easing indefinitely to alleviate this enormous burden.

- 3.6 Eventually, the absence of the Bank of England as the largest buyer of gilts will shift the balance between supply and demand in the gilt-edged market. Other investors will almost certainly require some incentive to continue buying government paper.
- 3.7 This incentive will take the form of higher yields, consequently increasing PWLB rates. The longer end of the curve will suffer from the lack of support from the major savings institutions – pension funds and insurance companies - who will continue to favour other investment instruments as a source of value and performance.
- 3.9 The front end of the curve will benefit from heavy purchases by banks as they seek to meet the FSA’s proposed liquidity requirements. This will be a major benefit to the Government’s gilt funding operations in the near term and will ensure the steeply-positive incline of the yield curve remains intact, making short-term PWLB rates attractive.
- 3.10 The table below presents the expected movement in interest rates over the medium term*.

Financial Year	Investment Rates			Borrowing Rates		
	Base Rate (Annual Average %)	Money Rates (Annual Average %)		PWLB Rates (Annual Average %)		
		3 Month	1 Year	5 Year	25 Year	50 Year
2011/12	0.7	0.9	1.8	3.5	5.3	5.4
2012/13	1.7	1.9	2.8	4.2	5.5	5.6
2013/14	3.1	3.3	3.8	4.8	5.6	5.7
2014/15	4.0	4.2	4.5	5.6	5.6	5.8
2015/16	4.0	4.2	4.2	5.3	5.5	5.5

* Source: Sector (Jan 2011)

4. INVESTMENT STRATEGY 2011-12

- 4.1 Expectations of short-term interest rates, on which investment decisions are based, show the likelihood of the current 0.5% Bank Rate remaining flat until the latter stages of 2011. The 2011-12 budget provision for interest receivable is around £150,000.

- 4.2 There are 3 key considerations to the treasury management investment process. CLG's Investment Guidance ranks these in the following order of importance and each investment is considered in the context of these 3 factors:

security of principal invested,
liquidity for cash flow, and
investment return (yield).

5. INVESTMENT STRATEGY 2011-12 – COUNTERPARTY CRITERIA

- 5.1 The criteria for choosing investment counterparties, as determined by Norfolk County Council and set out below, provide a sound approach to investment in 'stable' market circumstances. Whilst Members are asked to approve these criteria, under certain market conditions the Treasurer may temporarily restrict further investment activity to those counterparties considered of higher credit quality, rather than the minimum criteria set out for approval. This restriction will remain in place until 'stable' banking conditions return. Similarly the time periods for investments may be restricted. The Authority's external treasury consultants and Norfolk County Council will provide guidance to the Treasurer as to the stability of banking and financial markets.
- 5.2 Examples of these restrictions would be the greater use of the Debt Management Account Deposit Facility (DMADF – a Government body which accepts local authority deposits), Money Market Funds, 'high quality' UK banks and financial institutions or those UK institutions offered support by the UK Government (Eligible Institutions).
- 5.3 With concerns over the security of some financial institutions and economic uncertainty in a number of euro-zone countries and more recently events in the middle East, the Treasurer will continue to restrict direct investment activity to 'high quality' UK banks and financial institutions. This restriction will remain in place until more stable conditions return. However, in order to provide flexibility in managing the Authority's investment activities, credit rating criteria and lending restrictions for Overseas Banks will be determined as part of the 2011-12 investment strategy for use when more stable conditions return. This flexibility ensures that the Authority is able to respond quickly to changing economic conditions and ensure investment opportunities are not missed. The Treasurer will consult with the Chairman of the Scrutiny & Audit Committee and lead member for Finance before investing in overseas institutions.
- 5.4 Norfolk County Council, on behalf of the Authority as part of its contractual arrangement, works closely with its external treasury consultants to determine the criteria for 'high' credit quality institutions. The rating criteria use the 'lowest common denominator' method of selecting counterparties and applying lending limits to those counterparties. This means that the application of the minimum criteria will apply to the lowest available rating for any institution. For example, if an institution is rated by all three agencies, two meet the criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with the CIPFA Treasury Management Code of Practice.

5.5 The criteria for providing a pool of high quality investment counterparties for inclusion on the Council's 'Approved Authorised Counterparty List' is provided below:

- **UK & Overseas Banks** – with, as a minimum, the following Fitch, Moody's and Standards and Poors credit ratings:

UK & Overseas Banks	Fitch	Moody's	Standard & Poors
Short Term Ratings	F1	P-1	A-1
Long Term Ratings	A	A2	A
Individual Ratings/ Financial Strength	C	C	-
Support Ratings	3	-	-
Sovereign Status*	AAA	AAA	AAA

* Sovereign Status applies to Overseas Banks This requires that a country must be assigned an AAA 'sovereign' rating by all three credit rating agencies for it to meet the Council's counterparty criteria. Restrictions are also applied to the lending limits assigned to overseas counterparties (see Section 7).

- **Eligible Institutions** – This is an organisation which is 'Eligible' for the HM Treasury Credit Guarantee Scheme (announced on 13th October 2008). These institutions have access to HM Treasury liquidity if needed. Whilst the ability for Eligible Institutions to issue new guaranteed debt has now closed, the Scheme itself and status of Eligible Institution continues, allowing the Council to use investment counterparties such as Royal Bank of Scotland and Lloyds, which are part Government owned, but would have otherwise not meet our minimum credit rating criteria due to poor individual/financial strength rating.
- **Building Societies** – The Authority will use Building Societies which:
 - (a) meet the ratings for banks outlined above
 - or are both
 - (b) Eligible Institutions and
 - (c) Have assets in excess of £10bn.
- **Money Market Funds (MMFs)** – which are rated AAA by all three major rating agencies. MMF's are 'pooled funds' investing in high-quality, high-liquidity, short-term securities such as treasury bills, repurchase agreements and certificated deposits. Funds offer a high degree of counterparty diversification that include both UK and Overseas Banks.
- **UK Government** – including the Debt Management Account Deposit Facility.

- **Local Authorities, Parish Councils etc.**

- 5.6 The credit ratings of the Authority's Corporate Banker (Co-operative Bank) are currently below the minimum criteria for UK Banks above. Cash balances held with the Co-operative Bank are for account operation purposes only. Balances will be minimised in both monetary size and time.
- 5.7 Credit rating information is supplied to Norfolk County Council on all active counterparties that comply with the above criteria. Any rating changes, rating watches (notification of a likely change) and rating outlooks (notification of a possible longer term change) are provided by their treasury consultants immediately they occur. The List can therefore be actively managed on a day-to-day basis and when an institution no longer meets the criteria outlined above, it is immediately removed. The County Council also proactively reacts to negative rating watches, immediately suspending them from the List until clarification of the rating watch is obtained or the rating is either re-affirmed or changed. The List is reviewed at least once a year for any possible additions.
- 5.8 All cash invested by the Authority in 2011-12 will be Sterling deposits, invested with banks and other institutions in accordance with the Approved Authorised Counterparty List.
- 5.9 The Code of Practice requires local authorities 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 use, additional market information will be used to inform investment decisions. This additional market information includes, for example, Credit Default Swap rates and equity prices in order to compare the relative security of counterparties.
- 5.10 It is proposed that the current lending limit of £5 million for each counterparty is maintained for 2011-12, (with the exception of money market funds where an overall exposure limit of £35million is to be maintained in accordance with the County Council's Treasury management Strategy).

6. SPECIFIED & NON-SPECIFIED INVESTMENTS

- 6.1 CLG 's Investment Guidance requires local authorities to invest prudently and give priority to security and liquidity before yield. In order to facilitate this objective the Guidance requires the Authority to have regard to CIPFA's Code of Practice for Treasury Management in the Public Sector.
- 6.2 The key requirements of both the Code and the Investment Guidance is to produce an Annual Investment and Treasury Strategy covering the following:
- Guidelines for choosing and placing investments.
 - Identification of the maximum period for which funds can be committed.
 - Details of Specified and Non-Specified investment types.
- 6.3 Specified Investments offer "high security and high liquidity". They are Sterling denominated and have a maturity of less than one year. Institutions of "high" credit

quality are deemed to be Specified Investments. From the pool of high quality investment counterparties identified in Section 5, the following are deemed to be Specified Investments where the period of deposit is 364 days or less:

- UK & Overseas Banks
- Eligible Institutions
- Building Societies (which meet the minimum ratings criteria for Banks)
- Money Market Funds
- UK Government
- Local Authorities, Parish Councils etc.

6.4 Non-Specified Investments are those investments that do not meet the criteria of Specified Investments. From the pool of counterparties identified in Section 5, they include:

- Building Societies (which are Eligible Institutions & have assets in excess of £10bn)
- The Authorities Banker (Co-operative Bank).
- Any investment greater than 364 days.

6.5 The categorisation of 'Non-Specified' does not in anyway detract from the credit quality of these institutions, but is merely a requirement of the Government's guidance.

6.6 The Approved Authorised Counterparty List includes both Specified and Non-Specified Investment institutions.

7. BORROWING STRATEGY 2011-12

7.1 Capital expenditure can be paid for immediately by applying capital receipts, capital grants or revenue contributions. Capital expenditure in excess of available capital resources or revenue contributions will add to the Authority's borrowing requirement. The Authority's need to borrow is measured by the Capital Financial Requirement, which simply represents the total outstanding capital expenditure which has not yet been paid for from either capital or revenue resources.

7.2 For the Authority, borrowing principally relates to long term loans (i.e. loans in excess of 364 days). The borrowing strategy includes decisions on the timing of when further monies should be borrowed.

7.3 The main source of long term loans is the Public Works Loan Board (PWLB), which is part of the UK Debt Management Office (DMO). The maximum period for which loans can be advanced by the PWLB is 50 years.

7.4 In accordance with the approved 2010-11 Investment Strategy, the Authority has postponed any new borrowing for capital purposes, using cash balances on a temporary basis to avoid the cost of 'carrying' debt in the short term. Delaying borrowing and running down the level of investment balances also reduces the Authority's exposure to investment counterparty risk. The option of continuing to postpone borrowing into 2011-12 will be considered as part of the 2011-12 borrowing strategy, subject to the cash flow position at the time.

- 7.5 Total external borrowing currently stands at around £13 million, with an additional £15 million financed internally from temporary cash resources. The Authority's overall borrowing requirement in 2011-12 is estimated at less than £1 million, dependent upon the timing of capital receipts. The 2011-12 budget provision for interest payable is around £700,000. This covers interest on existing loan debt and the 2011-12 borrowing requirement. It is not envisaged that borrowing will be required during 2011-12 for capital expenditure financed internally during 2009-10 and 2010-11.
- 7.6 By the latter part of 2011, longer-term PWLB rates are forecast to rise. However, short-term fixed rates may provide lower cost opportunities. Flexibility as to the timing of borrowing and the maturity period of the loans taken is therefore key. The Treasurer, under delegated powers, will take the most appropriate form of borrowing it needed depending on the prevailing interest rates at the time, taking into account the risks identified in the economic overview in Section 3 of this report.
- 7.7 The level of outstanding debt and composition of debt, in terms of individual loans, is kept under review. The PWLB provides a facility to allow the restructure of debt, including premature repayment of loans, and encourages local authorities to do so when circumstances permit. This can result in net savings in overall interest charges. With the likelihood of longer term rates increasing, debt restructuring is likely to focus on switching from longer term fixed rates to cheaper shorter term debt.
- 7.8 Following the Comprehensive Spending Review the PWLB increased borrowing interest rates by approximately 1%, without changing debt redemption interest rates. This will make PWLB debt restructuring more problematic in future. The Treasurer will monitor prevailing rates for any opportunities during the year.
- 7.9 The Authority has flexibility to borrow funds in the current year for use in future years. For example, the Treasurer may do so under delegated powers where a sharp rise in interest rates is expected and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Treasurer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing will be undertaken to fund the approved capital programme. Risks associated with any advance borrowing will be subject to appraisal in advance, discussion with the Chairman of Scrutiny and Audit Committees and the Lead Member for Finance and subsequent reporting through the Scrutiny & Audit Committee and Police Authority.

8. TREASURY MANAGEMENT PRUDENTIAL INDICATORS

- 8.1 There are four treasury related indicators, which were previously Prudential Indicators. The purpose of these 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. However, if these indicators are too restrictive, they will impair the opportunities to reduce costs/improve performance. The Indicators are:
- **Upper Limits on Variable Interest Rate Exposure** – This identifies a maximum limit for variable interest rates based upon the debt position net of investments. It is recommended that the Authority set an upper limit on its variable interest

rate exposures for 2011-2012, 2012-2013 and 2013-2014 of 30% of its net outstanding principal sums. This is consistent with policy followed in previous years.

- **Upper Limits on Fixed Interest Rate Exposure** – Similar to the previous indicator, this covers a maximum limit on fixed interest rates. It is recommended that the Authority set an upper limit on its fixed interest rate exposures for 2011-2012, 2012-2013 and 2013-2014 of 100% of its net outstanding principal sums.
- **Maturity Structures of Borrowing** – These gross limits are set to reduce the Authorities exposure to large fixed rate sums falling due for refinancing and require upper and lower limits. It is recommended that the Authority sets the following limits for the maturity structures of its borrowing. These limits follow existing treasury management policy and are unchanged from 2010-2011:

	Lower Limit	Upper Limit
Under 12 months	0%	15%
12 months and within 24 months	0%	15%
24 months and within 5 years	0%	45%
5 years and within 10 years	0%	75%
10 years and above	0%	100%

- **Total Principal Funds Invested for Greater than 364 Days** – This limit is set with regard to the Authority’s liquidity requirements. As stated above, it is estimated that in 2011-12, no funds will be invested for periods greater than 364 days.

MINIMUM REVENUE PROVISION STATEMENT 2011-12

Introduction

1. The Authority is required to make a charge against the revenue budget each year in respect of capital expenditure financed by borrowing or credit arrangement. The annual charge is set aside for the eventual repayment of the loan and is known as the Minimum Revenue Provision (MRP). This is separate from any annual interest charges that are incurred on borrowing.
2. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 amend the way in which MRP can be calculated so that each authority must consider what is “prudent”. The regulations are backed up by statutory guidance which gives advice on what might be considered prudent.

Options for Making Prudent Provision

3. Four options are included in the guidance, which are those likely to be most relevant for the majority of authorities. Although other approaches are not ruled out, authorities must demonstrate that they are fully consistent with the statutory duty to make prudent revenue provision.

Option 1 - Regulatory Method

Authorities may continue to use the formulae put in place by the previous regulations.

Option 2 - Capital Financing Requirement Method

This is a technical calculation based upon taking 4% of the level of outstanding debt as signified by the previous year’s balance sheet.

Option 3 – Asset Life Method

This is to make provision over the estimated life of the asset for which the borrowing is undertaken. This could be done by:

- (a) Charging MRP in equal instalments over the life of the asset
- (b) Charging MRP according to the flow of benefits from an asset where the benefits are expected to be different between years (CIPFA guidance is awaited for this methodology)

Option 4 - Depreciation

The asset is depreciated in accordance with standard accounting methods

4. The regulations make a distinction between capital expenditure incurred before 1 April 2008 and capital expenditure incurred from 1 April 2008 in terms of the options available.
- 5 Options 1 and 2 are to be used for capital expenditure incurred pre April 2008. Options 3 and 4 are to be used for Capital expenditure incurred post April 2008.

Recommendations

6. In order to avoid complexity and to spread the charge to the revenue budget over the life of the asset, it is recommended that for MRP purposes the Authority continues with the current approach, namely that:
 - Capital expenditure incurred before April 2008 is treated in accordance with option 1 of the regulatory guidance; and
 - Capital expenditure incurred from April 2008 is treated in accordance with option 3(a) of the regulatory guidance.

COUNCIL TAX PRECEPT PROPOSED OPTION 2011-12

NO INCREASE IN COUNCIL TAX

Budget Requirement	£ 148,620,168
Less government funding	90,786,266
To be met from council tax (incl. surplus)	<u>57,833,902</u>

Billing Authority	Precept Amount £	Surplus on Collection Fund £	Total Payments Due £
Breckland	8,267,349	94,000	8,361,349
Broadland	8,665,283	8,000	8,673,283
Kings Lynn & West Norfolk	9,719,339	253,160	9,972,499
Norwich	7,792,829	92,634	7,885,463
Great Yarmouth	6,018,099	76,044	6,094,143
North Norfolk	7,881,144	12,262	7,893,406
South Norfolk	8,771,759	182,000	8,953,759
Total	<u>57,115,802</u>	<u>718,100</u>	<u>57,833,902</u>

Valuation Band	Council Tax 2011/12 £
A	127.44
B	148.68
C	169.92
D	191.16
E	233.64
F	276.12
G	318.60
H	382.32

Payment	Date		%
1	19 April	2011	8
2	19 May		9
3	22 June		9
4	19 July		9
5	22 August		9
6	22 September		9
7	19 October		9
8	22 November		9
9	22 December		9
10	19 January	2012	9
11	22 February		3
12	22 March		8

NORFOLK POLICE AUTHORITY

15 FEBRUARY 2011

AGENDA ITEM: 7

REFERENCE NO: NPA11/2

COUNCIL TAX EXCESSIVENESS CRITERIA 2011 -2012
(SUPPLEMENTARY REPORT TO THE MEDIUM TERM FINANCIAL STRATEGY
2010-11 TO 2014 -15 AND BUDGET REPORT 2011 – 12)

Report by Treasurer

1. As members will be aware, planning for the Budget and Council Tax for 2011-2012 has been based on a nil increase in Council Tax. This is mentioned at paragraph 3.15 in the Medium Term Financial Strategy 2010-11 to 2014-15 and Budget Report 2011- 12 report on the NPA agenda. The Government have advised that if local authorities and police authorities agree a nil increase in Council Tax they will qualify for a grant payment equivalent to the yield from a 2.5% increase.
2. The government have advised that this grant support will mean that the NPA will receive £1.4m compensation in 2011 -2012 for setting a nil increase and that this support will continue to be paid for the following 3 years.
3. The government has not said that the Council Tax subsidy scheme will be repeated in future years. However, with the uncertainty around Council Tax the NPA has still assumed for planning purposes a nil increase in Tax in 2012-2013 and a nominal 1.5% increase in each of the following 2 years.
4. Council Tax excessive criteria announcements by the government, which could lead to capping, have until now been made after all local authorities and police authorities have determined Council Tax levels. This meant that if a Tax increase was deemed to be excessive , there was the possibility of a lower level having to be set either during the immediate financial year with associated rebilling costs or in the following year.
5. Without any prior notice the government announced on 10th February 2011 excessiveness criteria to be applied for 2011-2012. A Council Tax increase will be considered to be excessive if:
 - **the amount calculated by the authority as its budget requirement for 2011/12 is more than 92.5% of the authority's alternative notional amount; and**

- **the amount calculated by the authority as its Band D council tax for 2011/12 is more than 3.5% greater than the same amount calculated for 2010/11**

There is no information on the government's intentions on excessiveness after 2011-2012.

6. This now means that the NPA could consider a Council Tax increase up to just below the 3.5% in the government's excessiveness criteria. Each 1% increase in Council Tax yields £0.6m. However, if a Tax increase of say 3.49% were agreed, this would mean that the government would no longer pay the subsidy equivalent to a 2.5% increase. Consequently the actual additional yield from a 3.49% increase would be restricted to a 0.99% increase, or some £0.6m.
7. Clearly, an increase of £0.6m would have a beneficial effect on staffing levels and would be in the base budget for future years. The later is an additional point to consider in view of the uncertainty on whether the Council Tax subsidy for 2011-2012 will be reflected in government grant after the following 3 years. However, the same uncertainty applies to all the government's financial planning information. There is also the potential for the funding formula and the approach to grant damping to significantly change.
8. Public consultation on the Budget and Council Tax for 2011-12 has been on the basis of a nil increase in Tax for 2011-12. If the NPA wished to consider now an increase up to the excessive criteria i.e. 3.49% the decision on the Budget and Council Tax would need to be deferred until later in February to allow for urgent public consultation.

RECOMMENDATION /ACTION REQUIRED

9. It is recommended that the Authority consider the information in this report on the excessiveness criteria for 2011-2012 and determine whether to,

Confirm a nil increase in Tax for 2011-12 (recommendation 18.1 (ix) in the Budget Report 2011-12)

or

Whether the NPA wish to consider an increase up to 3.49%, in which case urgent public consultation would be required and the decision on Council Tax deferred until later in February.