NOT CONFIDENTIAL – for public release

# POLICE AND CRIME COMMISSIONER (PCC) FOR LINCOLNSHIRE
# REQUEST FOR DECISION

**REF: 015/2018**
**DATE: 29 March 2018**

| | |
|---|---|
| SUBJECT | FINANCIAL STRATEGY, RESERVES STRATEGY & SUPPORTING PLANS |
| REPORT BY | **Chief Finance Officer** |
| CONTACT OFFICER | **Sharon Clark, Force Chief Finance Officer**<br>**Telephone 01522 947468** |

**EXECUTIVE SUMMARY AND PURPOSE OF REPORT**

The Financial Strategy attached is intended to provide a framework and parameters for financial management. It incorporates the PCC's Reserves Strategy.

It will be supported by annual budgets and plans.

The following are also attached to this report:

- Value for Money & Efficiency Plan 2018/19
- Procurement Plan 2018/19
- Treasury Management Strategy 2018/19

**RECOMMENDATIONS**

***That the following be approved:***

1. ***The Financial Strategy, incorporating the Reserves Strategy***
2. ***The Value for Money & Efficiency Plan 2018/19***
3. ***The Procurement Plan 2018/19***
4. ***The Treasury Management Strategy 2018/19 Including:***
   A) ***The Minimum Revenue Provision policy statement at Appendix A of the strategy.***
   B) ***The prudential indicators and targets summarised at Appendix A of the strategy.***

**POLICE AND CRIME COMMISSIONER FOR LINCOLNSHIRE**

**I hereby approve the recommendation above, having considered the content of this report.**

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| ***Signature:*** | ***Date:*** 29/3/18 |

## A. NON-CONFIDENTIAL FACTS AND ADVICE TO THE PCC

## A1. INTRODUCTION AND BACKGROUND

1. See introduction to the Financial Strategy

## A2. LINKS TO POLICE AND CRIME PLAN AND PCC'S STRATEGIES/PRIORITIES

2. The Financial Strategy will support the Community Safety, Policing and Criminal Justice Plan for Lincolnshire and provide the framework for the management of all financial issues.

## B. FINANCIAL CONSIDERATIONS

These are discussed in the Financial Strategy and supporting plans.

## C. LEGAL AND HUMAN RIGHTS CONSIDERATIONS

There are no statutory requirements for the Police and Crime Commissioner (PCC) to agree a Financial Strategy, Value for Money & Efficiency Plan or Procurement Plan. The Treasury Management Strategy 2018/19 complies with statutory and best practice guidance on treasury management. The PCC is required to agree prudential indicators and targets and to set a minimum revenue provision policy before the start of each financial year.

## D. PERSONNEL AND EQUALITIES ISSUES

None.

## E. REVIEW ARRANGEMENTS

It is intended that, like the Community Safety, Policing and Criminal Justice Plan for Lincolnshire, the Financial Strategy will be valid for the Commissioner's term of office. Changes should be exceptional and probably related to external changes.

Budgets and supporting plans will be updated annually.

## F. RISK MANAGEMENT

The Financial Strategy has been prepared in the context of an assessment of all financial risks and controls.

## G. PUBLIC ACCESS TO INFORMATION

Information in this form along with any supporting material is subject to the Freedom of Information Act 2000 and other legislation. Part 1 of this form will be made available on the PCC's website within one working day of approval. However, if release by that date would compromise the implementation of the decision being approved, publication may be deferred. An explanation for any deferment must be provided below, together with a date for publication.

| | |
|---|---|
| **Is the publication of this form to be deferred?** | No |
| **If Yes, for what reason:** | |
| **Until what date:** | |

Any facts/advice/recommendations that should not be made automatically available on request should not be included in Part 1 but instead on the separate part 2 form.

| | |
|---|---|
| **Is there a part 2 form?** | No |

## ORIGINATING OFFICER DECLARATION

| | Initial to confirm |
|---|---|
| Originating Officer:<br>PCC's Chief Finance Officer recommends this proposal for the reasons outlined above. | JEF |
| Financial advice:<br>The PCC's Chief Finance Officer has been consulted on this proposal. | JEF |
| The CC's Chief Finance Officer has been consulted on this proposal. | |
| Monitoring Officer:<br>The PCC's Monitoring Officer has been consulted on this proposal | |
| Chief Constable:<br>The Chief Constable has been consulted on this proposal | |

## OFFICER APPROVAL

***Chief Executive***

I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. Consultation outlined above has also taken place. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner for Lincolnshire.

***Signature:*** **Date:** 29/3/18

March 2018

# Financial Strategy incorporating Reserves Strategy 2018/19

Police and Crime Commissioner for Lincolnshire

## 1. Introduction

1.1 The purpose of the Financial Strategy is to provide a framework and parameters for financial management. It aims to ensure that finances are managed in order to ensure:

- Financial management facilitates the delivery of the Police and Crime Plan;
- Taxpayers' money is used effectively, efficiently and demonstrates good value for money;
- Lincolnshire Police is in sound financial health ;
- There is effective corporate governance with sound systems of internal financial control.

1.2 The Strategy is implemented through a number of plans and policies as shown in Appendix A.

1.3 Content of the Financial Strategy:

2. Statutory requirements and guidance
3. Revenue spending and council tax
4. Fairer funding
5. Value for money
6. Capital spending and funding
7. Carry forward of over and under spending
8. Financial health and governance
9. Reserves
10. Budget management
11. Procurement
12. Income and charging
13. Treasury management
14. Accounting and financial processes

1.4 Implementation of the Financial Strategy will be monitored through the measures of financial health and performance attached at Appendix B. There will also be an Annual Report on Financial Performance to the Chief Constable and the Commissioner which will include actual performance compared to the targets shown in Appendix B.

## 2. Statutory Requirements and Guidance

2.1 The financial affairs of the Commissioner and the Chief Constable will comply with statutory requirements including the requirements of the Police Reform and Social Responsibility Act 2011.

2.2 Financial affairs will also comply with the considerable amount of secondary legislation and guidance including:

- The Accounts and Audit Regulations
- The Code of Practice on Local Authority Accounting
- The Code of Practice on Internal Audit in Local Government
- Delivering Good Governance in Local Government
- Prudential Code for Capital Finance in Local Authorities
- The Code of Practice for Treasury Management in Public Services
- Financial Management Code of Practice for the Police Service.

## 3. Spending and Council Tax

3.1 Resources will be allocated in budgets to support and promote achievement of the Police and Crime Plan.

3.2 The total resources available and their allocation will be planned for a number of years ahead and agreed in a Medium Term Financial Plan.

3.3 Budgets will be set realistically with expenditure balanced to the income available. It is clear however that without a more equitable slice of the national police grant or substantial precept rises in future years; Lincolnshire would not be able to set a budget without significant degradation of service from 2019/20 onwards.

3.4 The council tax will be set so as to deliver the Police and Crime Plan and with regard to the impact on Lincolnshire council tax payers and council tax capping limits set by the government.

## 4. Safer Funding

4.1 Lincolnshire's case for an increased share of government funding will continue to be promoted with the government and those that can influence government, including Lincolnshire MPs. This will include working with others where there are common interests.

4.2 It is intended that the Core Grant Distribution Review (funding formula) will be revisited at the next Spending Review, with the potential implementation in 2020/21 at the earliest.

5. **Value for money**

5.1 The Commissioner will agree an annual Value for Money & Efficiency Plan before the start of each financial year. There will be specific arrangements to oversee its delivery with regular monitoring and reporting to the Chief Constable and the Police and Crime Commissioner.

5.2 Value for money will be a key consideration in decision making. This includes:

- Having robust business plans linking policing plans with the budgets available.

- Applying a rigorous business case for all major projects involving new revenue or capital spending. All business cases will include the Chief Finance Officer's comments on financial implications, compliance, risk and value for money.

- Reviewing all areas of spending periodically through a planned programme of value for money reviews.

5.3 Services will be delivered in partnership with other bodies where this provides better value for money including better services and / or lower costs. This may include:

- Working jointly with partners particularly other police bodies in the region

- commissioning services from other bodies

- contracting out services to private sector providers

6. **Capital Spending and Funding**

6.1 Resources will be allocated in the capital programme to maintain and replace existing assets including buildings, vehicles and ICT systems.

6.2 Resources will also be allocated for new developments with priority given to projects, particularly ICT projects, which will generate worthwhile future savings or promote performance and productivity improvements.

6.3 Specific resources will be allocated for collaborative programmes such as the Blue Light Collaboration.

6.4 Capital spending will be funded largely through long term borrowing. Surplus assets will be disposed of where appropriate in accordance with the Asset Management Strategy. A review of the estate may result in property disposals and/or shared locations with other public services; this is in line with the One Public Estate agenda.

6.5 Annual provision will be made for the repayment of debt. The amount repaid will be related directly to the useful life of the assets acquired through borrowing so that debt is not outstanding after an asset's useful life.

6.6 Provision for the repayment of debt including interest as a proportion of annual income from government grants and council tax will not exceed the limit set to ensure that long term borrowing is affordable and sustainable.

## 7. Carry forward of over and under spending

7.1 Under and over spends on department budgets are not carried forward into the following year automatically.

7.2 The use of any under spends will be considered overall as part of the outturn report and will be decided by the PCC.

7.3 All under and over spends on the following budgets will be carried forward without exception:

- capital budgets
- specific grants

## 8. Financial Health and Governance

8.1 The Commissioner's Chief Finance Officer is responsible for ensuring that the Commissioner's financial affairs are properly administered having regard to their probity, legality and appropriate standards. The Chief Constable's Chief Finance Officer has the same responsibilities in relation to the Police Force.

8.2 The PCC and the Chief Constable will both prepare and publish codes of corporate governance and annual governance statements.

8.3 The PCC and the Chief Constable will also prepare risk registers and keep them under review.

8.4 A Joint Independent Audit Committee will monitor and report on the effectiveness of corporate governance and risk management arrangements.

8.5 Detailed Financial Regulations will be maintained and compliance monitored.

8.6 An internal audit function will be maintained in accordance with the CIPFA Code of Practice.

8.7 A register of financial risks will be maintained and kept under review, and appropriate arrangements made to eliminate or mitigate risks including establishing provisions, earmarked reserves and the use of insurance.

## 9. Reserves

9.1 CIPFA's Guidance makes clear that the adequacy of reserves should be assessed in the context of its strategic, operational and financial risks.
Reserves can be categorised according to their intended use as:-

- Risk based earmarked and general reserves – these are intended to provide mitigation from operational and financial risk
- Timing differences – these allow the organisation to manage variations between years in committed spending programmes and may extend beyond the current Medium Term Financial Plan (MTFP)
- Specific projects/activity – these provide earmarked reserves in respect of specific approved projects within the current MTFP.

Table A below shows the projected reserves across the Medium Term Financial Plan under these categories. Details of each reserve held are provided in Appendix C.

Table A

| General & Earmarked Reserves | As at 1st April 2017 £'000 | Forecast 31st March 2018 £'000 | Forecast 31st March 2019 £'000 | Forecast 31st March 2020 £'000 | Forecast 31st March 2021 £'000 | Forecast 31st March 2022 £'000 |
|---|---|---|---|---|---|---|
| Grand Total | 18,709 | 13,995 | 7,617 | 6,589 | 6,277 | 5,879 |
| Of which: | | | | | | |
| Earmarked Reserves for Specific Projects / Activity within the MTFP | 8,562 | 3,983 | 1,118 | 650 | 368 | 0 |
| Risk based Reserves | 8,479 | 8,479 | 5,379 | 5,379 | 5,379 | 5,379 |
| Earmarked Reserves for Specific Projects / Activity beyond the MTFP | 1,668 | 1,533 | 1,120 | 560 | 530 | 500 |

9.2 The previously approved Financial Strategy required that "general reserves will be maintained at the mid-point of a target range based on the financial risk assessment in respect of residual financial risks." This has been reviewed as part of updating this Financial Strategy.

9.3 The PCC currently holds a General Reserve of £5.6m, although the approved budget for 2018/19 plans for a reduction of £3.1m to support the revenue budget. Table B provides a summary of the risk based assessment that has been undertaken.

9.4 The range of required reserves is assessed as £5.4m - £11.7m, the mid-point of which is £8.6m. This is set against forecast risk based reserves of £5.4m representing 4.4% of the revenue budget: General Reserve £2.5m, Major Incident Reserve £1.9m and Insurance Reserve £1m. As a result, the previous policy is unachievable and this Financial Strategy proposes that this be amended to require risk-based reserves at the minimum of the target range. This increases the financial risk being carried by the PCC and is a consequence of the desire to release risk based reserves to mitigate the operational risk.

9.5 Nevertheless, given the context of increased financial risk, the need for sound financial control is further emphasised. The role of the Force Chief Financial Officer in supporting the Chief Constable and his team is key to delivering this.

## Table B – Risk Based Assessment

| Area | Risk addressed | Calculation basis | | Proposed allocation | |
|---|---|---|---|---|---|
| | | Min | Max | Min £000 | Max £000 |
| General balance | Budget overspend & general contingency | 0.5% budget requirement | 1% budget requirement | 610 | 1,220 |
| Major Disaster | First 1% of budget requirement to be met on major disasters | 50% of potential impact | 100% of potential impact | 610 | 1,220 |
| Council Tax | To provide for future non-payments, reducing yields etc. | 1% of council tax (2018/19) | 3% of council tax (2018/19) | 480 | 1,440 |
| Police Staff Pension Scheme Contributions | Actuarial variations in the level of contributions due to market volatility | | | 500 | 1,000 |
| Business Transformation Partnership | Risk of financial collapse or force majeure event before end of contract term (£1.5m of contract retender costs built into MTFP). | Based on 10% of Estimated cost of retendering (£1.5m) | Based on 50% of Estimated cost of retendering (£1.5m) | 150 | 750 |
| Budget Adjustment | To provide for the potential costs of staff reductions | 50% of costs of potential redundancy | 100% of costs of potential redundancy | 1,100 | 2,200 |
| Council Tax | To provide for the potential costs of a referendum | Costs of referendum | Cost of referendum & rebilling | 1,000 | 1,500 |
| Major Incidents | Possibility of in-year major incident costs exceeding provision in revenue budget | Maximum spend in last 5 years less revenue budget provision | 2 x the maximum spend in last 5 years less revenue budget provision | 400 | 1,400 |
| Insurance | Covers excess on insurance position | 2 x current excess | 4 x current excess | 500 | 1,000 |
| | | | | **5,350** | **11,730** |

## 10. Budget Management

10.1 The PCC and the Chief Constable will manage within approved budgets.

10.2 Budget management responsibilities for every revenue and capital budget will delegated to nominated budget holders who will be expected:

- to set realistic budgets and to manage actual expenditure and income within these budgets
- to manage in a way which maximises service performance and benefits, and;
- to take responsibility for financial management in their service area.

10.3 The PCC and the Chief Constable will monitor overall financial performance on a monthly basis and take any necessary corrective action. This will include ensuring that there is a planned approach to finding the savings necessary to balance the budget and that the required savings are achieved.

10.4 The Chief Finance Officer will ensure that budget holders and senior managers receive appropriate support including training. The CFO will also ensure that the finance function is resourced to be fit for purpose, including the availability of specialist financial expertise as necessary.

## 11. Procurement

11.1 The Commissioner will agree an annual Procurement Plan before the start of each financial year and will receive a year end annual report and other reports as required.

11.2 Procurement arrangements will be designed to ensure that the right things are acquired at the best price. This recognises both price and value.

11.3 Procurement processes will promote

- Value for money
- Transparency, accountability and probity
- And compliance with legal requirements

11.4 Strong centralised controls will be maintained to ensure high levels of compliance with approved processes.

11.5 Competitive prices will be achieved through maximizing the use of national or regional contracts which provide significant savings. Higher value contracts will be subject to tendering or other competitive processes.

## 12. Income and Charging

12.1 Charges for services will be set to comply fully with national guidance. National rates of charges will be applied where set.

12.2 Charges will be set to recover the full economic cost for policing commercial events. An abatement of 50% will apply to charges for charitable and community events.

12.3 Discretionary charges will, as a minimum, recover the costs of providing services.

12.4 All charges will be updated annually.

## 13. Treasury Management

13.1 The Commissioner will agree an annual Treasury Management Strategy Statement before the start of each financial year and will receive, as a minimum, a six month progress report and a year-end annual report.

13.2 Long term borrowing will be taken from the Public Works Loan Board to fund capital expenditure. Decisions on borrowing will be based on a range of treasury management considerations including the cash flow position, current and projected interest rates, and the maturity profile of current debt.

13.3 Policies for the investment of surplus cash will be security first, liquidity second and then return. Protection of the capital invested will be the overriding priority. Return on investment will be maximized but will be modest, commensurate with this level of risk.

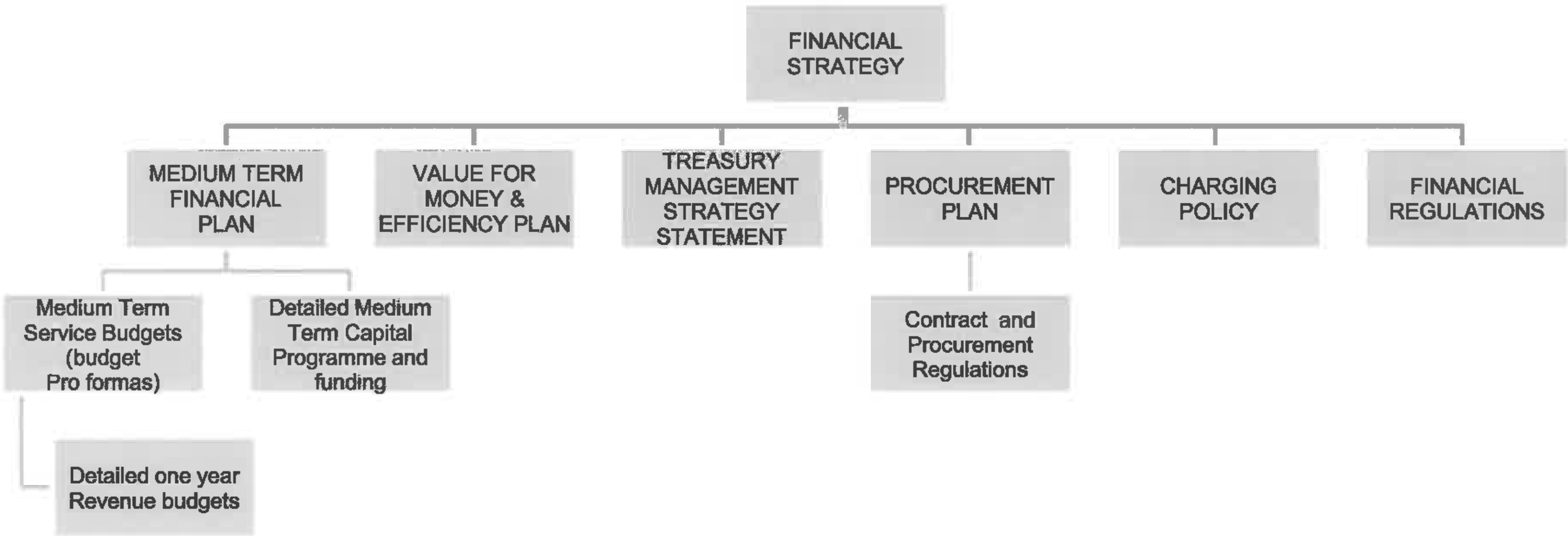
12.4 The Commissioner will agree targets for specified prudential indicators in relation to capital financing and other treasury management matters before the start of each financial year. The main purpose of these is to ensure that capital financing, in particular its long term borrowing, is prudent, affordable and sustainable.

## 14. Accounting and Financial Processes

14.1 Strong financial controls will be maintained with the Chief Finance Officers responsible for agreeing all financial processes, systems and financial records.

14.2 Accounting policies will comply fully with International Financial Reporting Standards and statutory requirements as set out in the Code of Practice on Local Authority Accounting in the UK. The annual financial statements will give a true and fair view of the financial position and transactions in the opinion of the external auditor.

**APPENDIX A**



FINANCIAL STRATEGY
MEDIUM TERM FINANCIAL PLAN
VALUE FOR MONEY & EFFICIENCY PLAN
TREASURY MANAGEMENT STRATEGY STATEMENT
PROCUREMENT PLAN
CHARGING POLICY
FINANCIAL REGULATIONS
Medium Term Service Budgets (budget Pro formas)
Detailed Medium Term Capital Programme and funding
Contract and Procurement Regulations
Detailed one year Revenue budgets

**APPENDIX B**

## PERFORMANCE MEASURES: financial health and performance

| REF | MEASURE | TARGET |
|---|---|---|
| | **Financial health** | |
| 1 | Risk & General reserves | Maintained around the minimum level of a target range based on a financial risk assessment, currently around 4% of total annual expenditure. |
| 2 | Borrowing | Annual cost of debt repayment and interest not to exceed 5% of annual income. |
| 3 | Internal control | All core financial systems to receive "substantial assurance" internal audit conclusions. |
| 4 | Accounting | Unqualified external audit opinion on the annual financial statements. |
| | **Fairer funding** | |
| 5 | Government grant | Increased share of national Police Grant. |
| | **Value for money** | |
| 6 | Spending | Lower than national average spending per head of population |
| 7 | Spending | Unqualified VFM Conclusion from the external auditor. |
| | **Financial performance** | |
| 8 | Revenue budget management | More than 50% of budgets managed to within 1%. |
| 9 | Capital programme management | Actual capital spending managed to more than 80% of the approved programme. |
| 10 | Income from fees and charges | Annual Income from fees and charges (with the exception of mutual aid) to exceed £1m. |
| 11 | Income collection | Average number of debtor days not to exceed 30 days. |
| 12 | Payments | More than 90% of undisputed invoices to be paid within 30 working days. |
| 13 | G4S contract – finance functions | 100% of G4S contractual targets achieved. |
| | **Treasury management** | |
| 14 | Interest earned | Interest rate on investments higher than average bank rate. |
| 15 | Interest paid | Interest paid on new long term borrowing less than average government borrowing rate. |
| | **Procurement** | |
| 16 | Extent of competition | Percentage of spending via national and regional frameworks and other competitive processes |
| 17 | Major contracts | Savings achieved on major contracts |

| General & Earmarked Reserves | | As at 1st April 2017 £'000 | *2017/18 Change* | Forecast 31st March 2018 £'000 | *2018/19 Change* | Forecast 31st March 2019 £'000 | Forecast 31st March 2020 £'000 | Forecast 31st March 2021 £'000 | Forecast 31st March 2022 £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Grand Total** | | 18,709 | *- 4,714* | 13,995 | *- 6,378* | 7,617 | 6,589 | 6,277 | 5,879 |
| **Of which:** | | | | | | | | | |
| **Earmarked Reserves for Specific Projects/Activity within the MTFP** | | | | | | | | | |
| Budget Flexibility | Reserve to be used to support future revenue budgets. £3.9m has been utilised in 2017/18 and £1.2m in 2018/19. There is no balance remaining at the end of 2018/19. | 5,029 | *-3,868* | 1,161 | *-1,161* | 0 | 0 | 0 | 0 |
| Strategic Partnership | Reserve relating to service improvements for strategic partnership contract. Remains in order to provide sufficient cover for the outstanding Milestone payments potentially due to G4S Budget. | 321 | *-271* | 50 | *-50* | 0 | 0 | 0 | 0 |
| Partner Agency Funding | Reserve for Funding received from NHS (custody transformation) & LCJB. This includes £34k LCJB funding in order to cover cost of post redundancy should regional posting cease, and £86k of NHS Custody Grant with no plans. | 121 | *0* | 121 | *0* | 121 | 35 | 35 | 0 |
| Regional NICHE | Surplus generated on the Derbyshire NICHE project to use on future regional development. | 357 | *0* | 357 | *-357* | 0 | 0 | 0 | 0 |
| Mobile Data | Additional costs of the Mobile Data implementation. The reserve has been allocated. | 9 | *-9* | 0 | *0* | 0 | 0 | 0 | 0 |
| Corporate Communications | Reserve created to cover cost of interns in department along with a new contract cost to benefit the whole organisation. The reserve has been allocated. | 59 | *-59* | 0 | *0* | 0 | 0 | 0 | 0 |
| ASB Case Management | An administrator post in the Crime Department that specialises in Anti-Social Behaviour. The reserve has been allocated. | 21 | *-21* | 0 | *0* | 0 | 0 | 0 | 0 |
| Policing Model Fund | Carry forward of project underspend to fund future commitments. The reserve has been allocated. | 51 | *-51* | 0 | *0* | 0 | 0 | 0 | 0 |
| Body Worn Cameras | To fund purchase of Body Worn Cameras as part of the Innovation Fund scheme. Project funding carried over, but could be used to fund further capital schemes in this area. | 76 | *-39* | 37 | *-37* | 0 | 0 | 0 | 0 |
| Employee Welfare | To improve the working environment of employees. This reserve is forecast to be spent in the next 2 years. Reserve created from excess VAT receipts. | 57 | *-27* | 30 | *-30* | 0 | 0 | 0 | 0 |

| General & Earmarked Reserves | | As at 1st April 2017 £'000 | *2017/18 Change* | Forecast 31st March 2018 £'000 | *2018/19 Change* | Forecast 31st March 2019 £'000 | Forecast 31st March 2020 £'000 | Forecast 31st March 2021 £'000 | Forecast 31st March 2022 £'000 |
|---|---|---|---|---|---|---|---|---|---|
| Internships | Costs associated with an internship scheme. This was funding to cover April to August 2018 for 2 Interns. These have been added to the 2018/19 base budget so the reserve can be released. | 40 | *-28* | 12 | *-12* | 0 | 0 | 0 | 0 |
| Innovation Funds | Round 2 PIF funds. This is to fund one outstanding NICHE / Innovation Round 2 payment to G4S | 35 | *0* | 35 | *-35* | 0 | 0 | 0 | 0 |
| Op Hillstar Staffing | Staffing commitment on Operation Hillstar (ongoing Major Incident). This will be needed until a 'familial DNA' match is found. There can be no time scale attached to this. | 200 | *-66* | 134 | *-134* | 0 | 0 | 0 | 0 |
| Telephony System Scoping | Costs to cover the development work around a new phone system and the project is almost complete. | 15 | *-15* | 0 | *0* | 0 | 0 | 0 | 0 |
| FCR Mental Health Nurse | To fund a registered mental health professional in to the FCR. | 60 | *-45* | 15 | *-15* | 0 | 0 | 0 | 0 |
| Crime Prevention SKDC | Crime Prevention SKDC – CCTV initiative start up costs in connection with partner agency. | 11 | *-11* | 0 | *0* | 0 | 0 | 0 | 0 |
| Development & Partnership Working | Reserve to be used for Victims commissioning, force Intranet, governance, and Channel Management. £250k has been added in 2017/18 from underspending on community grants and contributions. | 837 | *165* | 1,002 | *-502* | 500 | 350 | 200 | 0 |
| CATS/Niche Back Office | To support the CATS / Niche system record conversion. This funding was reserved 3 years ago for a specific project, bus as yet there is no confirmed commencement date | 100 | *0* | 100 | *0* | 100 | 0 | 0 | 0 |
| Niche Data Quality | Funding of specific Regional Initiatives. The posts to be funded from this reserve have been added to the base budget so this reserve may no longer be required. | 163 | *-34* | 129 | *-32* | 97 | 65 | 33 | 0 |
| Performance & Productivity | To fund business change and efficiency projects. | 1,000 | *-200* | 800 | *-500* | 300 | 200 | 100 | 0 |
| **Total Funding of Specific Projects/Activity within the MTFP** | | 8,562 | *-4,579* | 3,983 | *-2,865* | 1,118 | 650 | 368 | 0 |
| **Risk based Reserves:** | | | | | | | | | |
| General Reserve | | 5,629 | *0* | 5,629 | *-3,100* | 2,529 | 2,529 | 2,529 | 2,529 |
| Major Incidents | The requirements of operational policing vary significantly from year to year. The reserve ensures that the PCC Group has funds available to respond to the requirements of major incidents. It is protection against large incidents. | 1,850 | *0* | 1,850 | *0* | 1,850 | 1,850 | 1,850 | 1,850 |

| **General & Earmarked Reserves** | | **As at 1st April 2017 £'000** | ***2017/18 Change*** | **Forecast 31st March 2018 £'000** | ***2018/19 Change*** | **Forecast 31st March 2019 £'000** | **Forecast 31st March 2020 £'000** | **Forecast 31st March 2021 £'000** | **Forecast 31st March 2022 £'000** |
|---|---|---|---|---|---|---|---|---|---|
| Insurance | To support the costs of on-going claims and for future unforeseen claims which have not yet arisen and for which revenue provision is insufficient. It is protection against large claims. | 1,000 | *0* | 1,000 | *0* | 1,000 | 1,000 | 1,000 | 1,000 |
| **Total Risk Based Reserves** | | 8,479 | *0* | 8,479 | *-3,100* | 5,379 | 5,379 | 5,379 | 5,379 |
| **Earmarked Reserves for Specific Projects/Activity beyond the MTFP** | | | | | | | | | |
| Capital Financing | Reserve allocation set aside to fund future capital programme items. | 652 | *0* | 652 | *-122* | 530 | 0 | 0 | 0 |
| Ill Health | Reserve to ensure the Force can meet the cost of potential Ill Health retirements. £130k of this could be used in 2017/18 as the Ill Health area may overspend if all in the current process leave before the year end. | 225 | -75 | 150 | *0* | 150 | 150 | 150 | 150 |
| Staffing | To provide for potential base budget shortfalls in the event that the vacancy factor isn't met. | 100 | *0* | 100 | *0* | 100 | 100 | 100 | 100 |
| Bank Holiday Maternity Pay | A future commitment may arise where back dated payments are made to staff. The reserve has been allocated. | 60 | *-60* | 0 | *0* | 0 | 0 | 0 | 0 |
| Regional Reserve | Surplus of funding relating to regional expenditure. | 461 | *0* | 461 | *-261* | 200 | 200 | 200 | 200 |
| Proceeds of Crime | The police share of assets recovered from the proceeds of crime is reserved for investing in further financial investigation work. | 170 | *0* | 170 | *-30* | 140 | 110 | 80 | 50 |
| **Total Specific Projects/Activity beyond the MTFP** | | 1,668 | *-135* | 1,533 | *-413* | 1,120 | 560 | 530 | 500 |

March 2018

# Value for Money & Efficiency Plan 2018/19

Police and Crime Commissioner for Lincolnshire

Chief Constable, Lincolnshire Police

## 1. Background

1.1 The Police and Crime Commissioner and the Chief Constable both have a statutory duty to make the best use of the resources available to them. The majority of the income for police and crime services comes from local and national taxpayers. The PCC and Chief Constable need to be able to demonstrate to the residents of Lincolnshire and to central government that the funding received is being used to the best possible effect.

1.2 Central government grants provide over half the service's income and the grant which Lincolnshire receives is well below the national average (see below). This was acknowledged in the Home Office Core Grant Distribution Review, which considered potential changes to the police funding formula. The initial exemplifications of the proposed model gave rise to approximately an additional £8 million for Lincolnshire. The Policing Minister's letter of 19th December 2017 regarding the Provisional Grant settlement acknowledges the work which had been undertaken so far and gave a commitment to revisit the funding formula at the next Spending Review in 2020/21. This means that Lincolnshire Police will continue to face the challenge of delivering services with a lower level of funding than comparable forces receive for the next two financial years.

1.3 Lincolnshire Police is the third lowest funded force in England and Wales, when taking into account all funding, and has the fourth lowest spend per head of population. When compared to its most similar forces, Lincolnshire receives significantly less central and local funding than its peers. This has required the force to be both innovative and collaborative in its approach to providing policing services. The force has increased cost effectiveness by outsourcing a considerable part of its back office functions to the private sector, and working collaboratively within the East Midlands forces to provide specialist capabilities. The force has reviewed its policing model to ensure it can deliver core policing services within the funding envelope but responding to increasing demand and new emerging areas of threat and crime whilst continuing to provide neighbourhood policing and maintaining visibility, will become increasingly difficult.

1.4 Lincolnshire Police, like most other public bodies, has had to make substantial savings over the first austerity period. The reduction in funding, which exceeds 20% since 2011, presents a continuing challenge in that significant savings have already been achieved to balance the budget through outsourcing and collaboration. This reduces the options available to the force for finding further savings without considering reductions to the workforce and hence impacting adversely on frontline policing services.

1.5 Despite this, the force performs well against other forces in its most similar group and other forces in England and Wales in relation to outcomes in all areas of crime, relative to its size both nationally and within the most similar group. This demonstrates the effectiveness of the force's collaborative arrangements and previous efficiency measures.

1.6 HMICFRS have provided a detailed set of VFM profiles based on the Police Objective Analysis. Lincolnshire spends the fourth lowest amount per head of population across all 43 Forces; this means that in the majority of indicators, Lincolnshire is in the lowest quartile of spend.

1.7 The provisional police grant announcement and House of Commons written statement on the Police Provisional Funding Announcement were laid in Parliament on 19th December 2017. For the first time, the police settlement attempted to give greater visibility for 2019/20 to assist more effective financial planning and covered two years. However, this was dependent on the police service delivering clear progress against agreed milestones on productivity and efficiency in 2018. The Provisional Grant settlement for 2018/19 included police grant at the same level as 2017/18 plus precept flexibility up to £12 per annum for a Band D property. For Lincolnshire, this equates to approximately a 5.8% increase in precept.

1.8 The Police Grant Report (England & Wales) 2018/19 was laid before the House of Commons on 31 January 2018. The allocations are the same as set in the Provisional Police Grant Report of 19th December 2017.

1.9 Despite the flexibility to raise additional council tax income, the budget for 2018/19 has been set against considerable cost pressures, representing a £6.8m increase in costs from 2017/18, offset by £3.8m of identified cost savings. The additional income will allow the force to keep pace with the officer and staff pay awards resulting from the relaxation of the public sector pay cap, but will not be sufficient to address a range of historic and new cost pressures. The structural deficit arising from the underfunded position of Lincolnshire Police remains and a further draw on reserves will be required in 2018/19 to balance the budget.

1.10 The budget for Lincolnshire Police will therefore have to be managed rigorously in 2018/19, given that the core grant distribution remains to be addressed. A range of options are under consideration for 2019/20 and beyond, with regard to workforce reductions to balance the budget in the medium term pending the Spending Review. Lincolnshire Police have taken the prudent approach of assuming no additional income from the funding formula review and is formulating its plans accordingly.

## 2. Current Performance

2.1 A summary of Lincolnshire's performance compared with its Most Similar Group (MSG) forces is shown in the table below. This is taken from the HM Inspectorate of Constabulary's value for money profiles.

| PERFOMANCE OR COST INDICATOR | LINCS | MSG | LINCS DIFFERENCE |
|---|---|---|---|
| Recorded Crime (excluding Fraud) per 1,000 population 2016/17 | 50.6 | 54.9 | 4.3 |
| 999 calls per 1,000 population 2016/17 | 115 | 106 | 9 |
| Number of Police Officers per 1,000 population 2016/17 | 1.41 | 1.70 | 0.29 |
| Number of PCSOs per 1,000 population 2016/17 | 0.2 | 0.2 | - |
| Expenditure per head of population / per day 2016/17 | 42p | 48p | 6p |
| Total Crimes (excluding fraud) per visible officer 2016/17 | 64.5 | 54.4 | 10.1 |
| Charged/Summonsed per visible officer 2016/17 | 10.2 | 7.8 | 2.4 |
| Victim Overall User Satisfaction % (12 month average as at December 2017) | 80.0% (of those surveyed | | |

## 3. Financial Strategy

3.1 The Commissioner's Financial Strategy requires Value for Money to be a key consideration in decision making. This includes:

- Having robust business plans linking policing plans with the resources available.
- Applying a rigorous business case process for all major projects involving new revenue or capital spending. All business cases must include the Chief Finance Officer's approval of financial implications and compliance, and assessment of risk and value for money. Benefits realisation and improved service efficiency will need to be clearly demonstrated for all new investment.
- Adopting a priority based approach to budgeting and reviewing all areas of resource allocation periodically through a planned programme of value for money reviews.

3.2 Services will continue to be delivered in partnership with other bodies where this can demonstrate better value for money including improved service efficiency and/or lower costs. This may include:

- Working collaboratively with partners, particularly other police forces in the region
- commissioning services from other bodies
- contracting out services to private sector providers

## 4. Priorities for 2018/19

4.1 The main emphasis of work in 2018/19 will be on:

- **Delivering planned savings for 2018/19.**
  Planned cumulative savings of over £26 million have been delivered successfully over the last six years. There are limited opportunities for the achievement of further savings without adverse impact on service delivery. The budget for 2018/19 identifies a further £3.8m of savings which will require close monitoring and management through the year.

- Securing the transformational improvement being delivered through the **strategic partner arrangement** with G4S who provide the majority of back office, control room and some criminal justice services. A key part of the partnership agreement is that, in addition to providing financial savings, G4S will improve services significantly by transforming the way they are delivered.

- Developing and implementing the projects and work streams under the change programme. The force has published its strategic plan "**Distinctively Lincolnshire**" and the Change Board oversees the programme of change required to deliver the additional capabilities outlined within the strategic plan.

- Ensuring that the expected benefits are realised in practice and that cash savings targets are delivered will also be a key feature of the programme.

## 5. Value for Money & Efficiency focus 201819

5.1 The **Mobile Data** project has provided mobile devices to frontline officers in order to replace existing paper processes and create time and financial savings through a reduction in back office functions. The project went live in January 2016 and has issued devices to approximately six hundred frontline officers. The project has delivered time savings of 30 minutes per officer per shift, evaluated using time and motion studies. Mobile Data has been rolled out to PCSOs and some Special Constables in 2017/18 and further rollout to CID response officers is planned for implementation in 2018/19.

5.2 Linked to the above project and a continuation of the theme focussing on better use of both officer time and the force's estate, the **Agile Working** project is looking at replacing desktop IT with laptops and tablets, allowing staff to work remotely where this enables greater efficiency. A limited initial trial has been conducted in 2017/18 to provide evidence as to the cost effectiveness of the investment. The capital programme for 2017/18 included a budget for a major IT refresh. This has been carried forward into 2018/19, allowing evaluation of the trial. If this proves to provide the expected cost and efficiency benefits, this budget will be used to invest in IT technology which facilitates agile working across the force rather than the replacement of traditional desktop equipment.

5.3 **Book On, Book Off (BOBO)** is a project to utilise the force's Duty Management System to reduce the cost of overtime accrued by police officers and streamline the process of approval, saving approximately 80 hours of manual input per month processing requests for overtime and correcting assumed duties to actual times worked. This was implemented in 2017/18 with further development planned for 2018/19. Furthermore, this will link into the planned new Command & Control system which is currently undergoing evaluation.

5.4 **Command & Control** – the force is currently evaluating replacement of the existing command & control system which will shortly be unsupported by the system provider. The force aspires to invest in one of the market leading systems which will facilitate better analysis of demand, improved prioritisation and more efficient deployment of officers and resources. This will represent a significant capital investment but with significant expected benefits realisation. The replacement of the current system will also be necessary before the implementation of the national Emergency Services Network (ESN) to ensure compatibility with the Emergency Services Mobile Communications Programme (ESMCP); see below.

5.5 A summary of the expected benefits is shown below.

***Local Policing***

- Tackling anti-social behaviour using geo fencing capabilities for known areas of repeated offences,
- Support for proactive preventative activities such as patrol route scheduling and tracking,
- Identification of individuals that cause reoccurring problems and crime,
- Identification of vulnerable individuals and deployment of appropriate resources,
- Improved multi agency communications and accountability hand over,
- Improved data sharing, data integration, data analytics and forecasting to better deploy and position local policing resources.

***Specialist Capabilities***

- By changing the way Lincolnshire interacts with their communities and staff will provide an opportunity to enhance and focus on reviewing our model for service delivery. A new system will provide an opportunity to streamline digital processes that may provide the ability to scale up specialist capabilities.

- The ability of a new system to consume significant amounts of information and present that to the user enables better identification of risk, with the ability to deploy and manage regional and volunteer resources throughout the county to maximise our opportunities to disrupt Organised Crime Groups, Terrorist threats and Cyber-crime.

***Digital Policing***

- A new system will deliver an agile and flexible operating system that can be scaled to manage increased demand but can also flex to manage joint mobile operating sites.
- The enhancements of a new system over the existing system will allow direct access to digital media for operational officer and managers to review 999 calls, CCTV footage and Drone deployments. This will enable commanders to assess the threat and risk in real time.
- A new system will provide multi media reporting into the force whilst maintain the traditional routes through telephone contact. Automated updates and messaging to relevant callers, witnesses and victims will increase confidence and improve satisfaction.
- Allow the force to pool all our legacy systems to allow the user to view all information held on the system.
- Based on pre-configured business rules the new application will provide suggestions on resource allocation and provide digital response plans securely within the application.

***Distinctively Lincolnshire and PCC Police and Crime Plan***

In addition to the benefits described above in alignment to the national strategy for future policing the new system is expected to deliver specific benefits aligned to local plans for Lincolnshire.

- The enhanced capabilities of a new system will enable Lincolnshire to better understand our demand and become more flexible about our use of resource to meet it. This will be achieved through the flexible configuration of the system to specifically identify patterns of reporting and utilise the flexibility of the reporting functionality to analyse that demand. This will reduce the time and effort required to scrutinise the data so we can react more effectively to changing circumstances and resolve them before they become an issue.
- The new system will allow for automated tasking and messaging reducing the time taken to update callers whilst recognising their history of contact any vulnerabilities. This will be achieved through the design of the application where present messages can be stored and a person's contact details are directly linked to the application and communications network to allow seamless interaction without the need to endlessly seek the caller's number.

- The force will be able to pre-plan its response based on policing demands ensuring an automated and swift response. The ability to geo fences an area and recognises linked calls from those specific locations. This ability will allow us to manage and respond to incidents such as hare coursing in a more effective and efficient manner.
- The capabilities of the application will enable the force to engage with its communities digitally, ensuring capture of contacts in a consistent and reusable fashion. This will be achieved through a contact management application which will have mandated fields for consistency and integrate with our existing telephone system providing the capabilities of communicating through web chat, e-mail or social media.
- The new system will enable the force to provide digital update to officers on matters of risk and harm in real time with the ability to track and capture their responses through standardised recording in a digital format. This will be achieved through the command mobile unit where officers will be altered based on information held in our core RMS. The system will know where the officer is located through the system tracking software and can provide pictures, intelligence reports on an automated basis without the intervention of an operator. For example if an officer is on enquiries and is near to a wanted sex offender. The system would alert the officer by message, provide a photo, provide the details of the arrest and provide the suspects address. Without this notification the officer may never have known they were in the vicinity of and wanted person.
- The solution will provide staff with an intuitive application that will assist and support them in their role. Providing a single picture of information and reducing double keying of data. The will be achieved through the integration with the regional Niche RMS platform. The Contact management system and the command and control system will push and pull data from our core system ensuring we reuse and update information in a connected fashion. This will provide officers a consistent single message without the need to multi search systems.
- The application will be integrated through core applications, providing a single book off book on process of resources with Crown DMS, an integrated mobile application through Pronto and reuse the data with our core records management system Niche.
- The application will sit on a more stable infrastructure and will be fully agile with the ability to run a command and control function from a laptop anywhere in the county.

5.6 **Emergency Services Mobile Communications Programme (ESMCP)** – this is a national programme to replace the current Airwave communications network with a new Emergency Services Network (ESN). Significant savings are expected to be realised through the implementation as running costs for the new network are forecast to be half the current running costs. In order to be ready for the implementation, the force will need to replace some of its IT infrastructure in addition to purchasing the new mobile communication devices.

5.7 The force is currently engaged in a **Bluelight Collaboration Programme**, which will create a shared Headquarters and Control Room for Police and Fire and Rescue, and a tri-service campus in the City of Lincoln for all three emergency services. As part of the programme, agencies are examining the shared estate to maximise the opportunities and efficiencies of co-location. This project commenced in 2016/17 and continues in 2018/19 with completion scheduled in 2019.

5.8 **Fleet** – two projects have been identified in relation to fleet for 18/19.

- **Telematics** – the force are currently evaluating the implementation of telematics in the operational vehicle fleet. Early indications are that improvements in vehicle usage and efficiency have the potential to realise net savings of circa £150k per annum.
- **Fleet vehicle specifications** - procurement of fleet related products and services are directed by national and regional collaborative purchasing contracts which bring together the combined purchasing power of other police forces and emergency services. These contracts ensure maximum value for money is achieved. Lincolnshire Police will continue to support and actively promote these procurement initiatives. The current vehicle procurement route is via the West Midlands Vehicle Framework which is a national contract. The fleet requirement is reviewed annually, continually maximising the efficiency of the owned fleet. The force intends to undertake a full review of the vehicle specifications, preferred suppliers and full lifecycle costs in 2018/19 to ensure that the force provides its officers with the appropriate vehicles and maximises cost efficiency.

## 6. Management and Performance

6.1 Delivery of the Value for Money & Efficiency Plan is overseen by the Resource Governance Board and progress is reported regularly to the Chief Constable and the Police and Crime Commissioner through monthly budget monitoring reports.

6.2 Independent assessments of the delivery of value for money are also provided by the external auditor and by HM Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS).

# Treasury Management Strategy Statement 2018/19

## Minimum Revenue Provision Policy Statement and Annual Investment Strategy

Police & Crime Commissioner for Lincolnshire

# INDEX

# 1 INTRODUCTION

## 1.1 Background

The Police & Crime Commissioner (PCC) is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the PCC's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the PCC's capital plans. These capital plans provide a guide to the borrowing need of the PCC, essentially the longer term cash flow planning, to ensure that the PCC can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, any debt previously drawn may be restructured to meet PCC risk or cost objectives.

CIPFA defines treasury management as:

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

## 1.2 Reporting requirements

The PCC is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

**Prudential and treasury indicators and treasury strategy** (this report) - the first and most important report covers:

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

**A mid-year treasury management report** – This will update the PCC with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

**An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

**Scrutiny**
The above reports are required to be adequately scrutinised before being recommended to the PCC. This role is undertaken within the Resource Governance meeting.

### 1.3 Treasury Management Strategy for 2018/19

The strategy for 2018/19 covers two main areas:

**Capital issues**

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

**Treasury management issues**

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the PCC;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

### 1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. The training needs of treasury management officers are periodically reviewed.

### 1.5 Treasury management consultants

The PCC uses Link Asset Services, Treasury solutions as its external treasury management advisors.

The PCC recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The PCC will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

## 2 THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2021/22

The PCC's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist the PCC's overview and confirm capital expenditure plans.

### 2.1 Capital expenditure

This prudential indicator is a summary of the PCC's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The PCC is asked to approve the capital expenditure forecasts:

| Capital expenditure £000 | 2016/17 Actual | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|---|---|---|---|---|---|---|
| Building Schemes | 2,304 | 2,088 | 1,300 | 1,000 | 1,000 | 1,000 |
| Business Transformation | - | - | - | - | - | - |
| Command & Control | - | - | 3,690 | 1,320 | - | - |
| Blue Light | 1,751 | 5,555 | 14,515 | 522 | - | - |
| ICT | 1,549 | 1,639 | 3,569 | 500 | 500 | 500 |
| Vehicles | 555 | 1,600 | 1,100 | 1,200 | 1,200 | 1,200 |
| Other / ESMCP | 198 | 548 | 1,000 | 1,000 | - | - |
| **Total** | **6,357** | **11,430** | **25,174** | **5,542** | **2,700** | **2,700** |

The table below summarises how the above capital expenditure plans are being financed, either by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

| Capital expenditure £000 | 2016/17 Actual | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|---|---|---|---|---|---|---|
| **Total** | 6,357 | 11,430 | 25,174 | 5,542 | 2,700 | 2,700 |
| **Financed by:** | - | - | - | - | - | - |
| Capital receipts | - | 260 | 60 | 60 | 60 | 60 |
| Capital grants & Contributions | 4,372 | 5,922 | 7,566 | 678 | 457 | 457 |
| Capital reserves | - | - | 500 | - | - | - |
| Revenue | - | 268 | - | - | - | - |
| **Net financing need for the year** | **1,985** | **4,980** | **17,048** | **4,804** | **2,183** | **2,183** |

### 2.2 The Capital Financing Requirement (PCC's borrowing need)

The second prudential indicator is the PCC's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the PCC's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge that broadly reduces the borrowing need in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes and finance leases). Whilst these increase the CFR, and therefore the PCC's borrowing requirement, these types of scheme include a borrowing facility and so the PCC is not required to separately borrow for these schemes. The PCC is currently projecting to have £7.9m of such schemes at 31 March 2018 within the CFR (£7.4m in 2016/17).

The PCC is asked to approve the CFR projections below:

| £000 | 2016/17 Actual | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|---|---|---|---|---|---|---|
| **Capital Financing Requirement** | | | | | | |
| **CFR Opening Balance** | 28,962 | 29,260 | 32,643 | 47,670 | 50,332 | 49,216 |
| **Movement in CFR** | 298 | 3,383 | 15,026 | 2,662 | (1,116) | (1,300) |
| **Total CFR** | 29,260 | 32,643 | 47,670 | 50,332 | 49,216 | 47,916 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Movement in CFR represented by** | | | | | | |
| Net financing need for the year (above) | 1,985 | 4,980 | 17,048 | 4,804 | 2,183 | 2,183 |
| Less MRP/VRP and other financing movements | 1,687 | 1,597 | 2,022 | 2,142 | 3,299 | 3,483 |
| | 0 | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 0 | 0 | 0 | 0 |
| **Movement in CFR** | 298 | 3,383 | 15,026 | 2,662 | (1,116) | (1,300) |

## 2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day to day cash flow balances.

| Year-end Resources £000 | 2016/17 Actual | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|---|---|---|---|---|---|---|
| Fund balances / reserves | 18,421 | 14,755 | 8,229 | 7,577 | 7,577 | 7,577 |
| Capital receipts | - | 260 | 60 | 60 | 60 | 60 |
| Provisions | 268 | 400 | 400 | 400 | 400 | 400 |
| Other | - | - | - | - | - | - |
| **Total core funds** | 18,689 | 15,415 | 8,689 | 8,037 | 8,037 | 8,037 |
| Working capital* | (3,886) | (3,886) | (3,886) | (3,886) | (3,886) | (3,886) |
| Under borrowing | (9,671) | (10,352) | (3,603) | (3,229) | (2,667) | (2,880) |
| **Expected Investments** | 5,132 | 1,177 | 1,200 | 922 | 1,484 | 1,271 |

*Working capital balances shown are estimated year-end; these may be higher mid-year. These are expected to be a deficit at year-end due to the timing that the Police Pension Top Up Grant is received.

Please note that actual figures for 2016/17 for all tables include Regional figures and are therefore as stated in the Financial Statements for 2016/17.

# 3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the PCC. The treasury management function ensures that the PCC's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

## 3.1 Current portfolio position

The PCC's treasury portfolio position at 31 March 2017, with forward projections are summarised below. The table shows the actual external debt.

| £000 | 2016/17 Actual | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|---|---|---|---|---|---|---|
| Debt at 1 April | 13,252 | 12,192 | 14,300 | 36,948 | 42,024 | 41,470 |
| New loans | - | 3,000 | 23,600 | 6,500 | 1,000 | - |
| Repayments | (1,060) | (892) | (952) | (1,424) | (1,554) | (1,514) |
| Finance Lease | 7,397 | 7,992 | 7,119 | 5,079 | 5,079 | 5,079 |
| **Actual gross debt at 31 March** | **19,589** | **22,292** | **44,067** | **47,103** | **46,549** | **45,035** |

Within the prudential indicators there are a number of key indicators to ensure that the PCC operates its activities within well-defined limits. One of these is that the PCC needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Chief Finance Officer reports that the PCC complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

## 3.2 Treasury Indicators: limits to borrowing activity

**The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

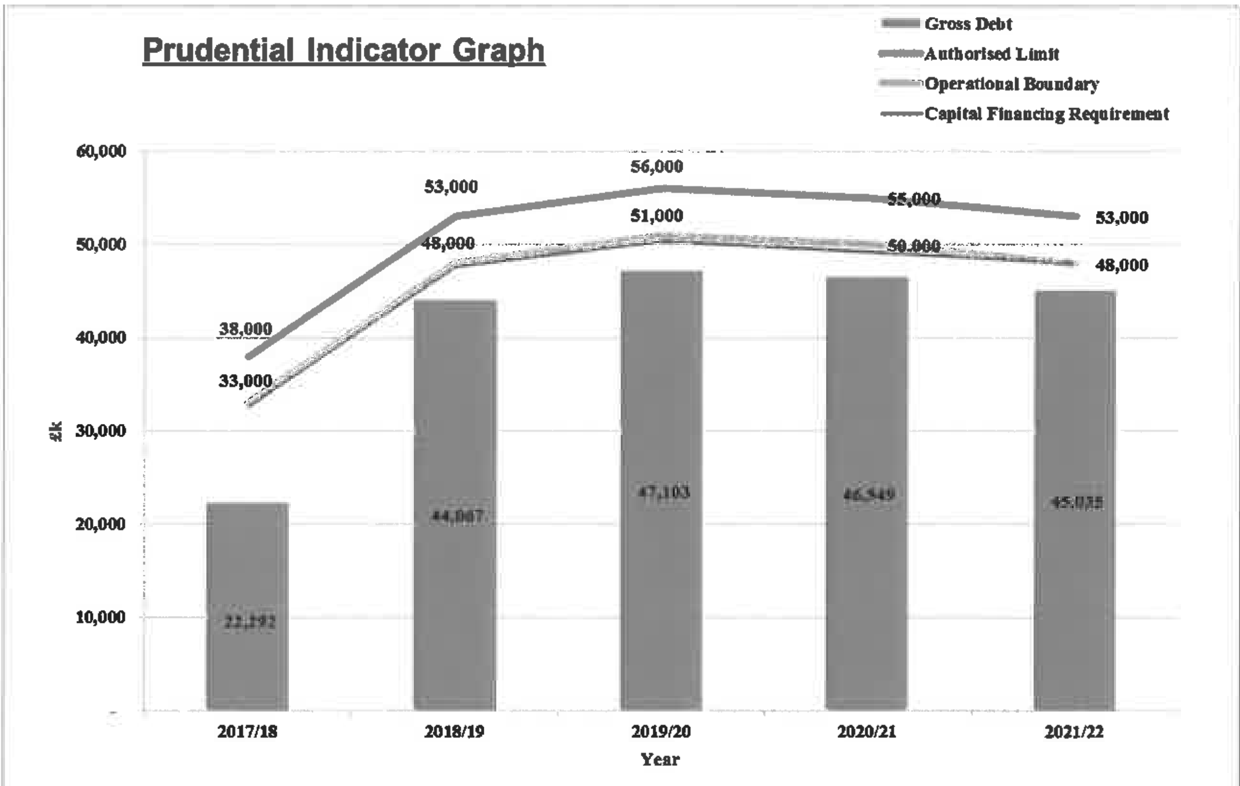
| Operational boundary £m | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|---|---|---|---|---|---|
| Debt | 33 | 48 | 51 | 50 | 48 |

**The authorised limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the PCC. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is a statutory limit, determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all PCCs' plans, or those of a specific PCC, although this power has not yet been exercised.
2. The PCC is asked to approve the following authorised limits:

| Authorised limit £m | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|---|---|---|---|---|---|
| Debt | 38 | 53 | 56 | 55 | 53 |

**Projections of CFR and borrowing**



### 3.3 Prospects for interest rates

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

| | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bank Rate | 0.50% | 0.50% | 0.50% | 0.50% | 0.75% | 0.75% | 0.75% | 0.75% | 1.00% | 1.00% | 1.00% | 1.25% | 1.25% | 1.25% |
| 5yr PWLB Rate | 1.50% | 1.60% | 1.60% | 1.70% | 1.80% | 1.80% | 1.90% | 1.90% | 2.00% | 2.10% | 2.10% | 2.20% | 2.30% | 2.30% |
| 10yr PWLB View | 2.10% | 2.20% | 2.30% | 2.40% | 2.40% | 2.50% | 2.60% | 2.60% | 2.70% | 2.70% | 2.80% | 2.90% | 2.90% | 3.00% |
| 25yr PWLB View | 2.80% | 2.90% | 3.00% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% | 3.30% | 3.40% | 3.50% | 3.50% | 3.60% | 3.60% |
| 50yr PWLB Rate | 2.50% | 2.60% | 2.70% | 2.80% | 2.90% | 2.90% | 3.00% | 3.00% | 3.10% | 3.20% | 3.30% | 3.30% | 3.40% | 3.40% |

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The result of the October 2017 Austrian general election resulted in a focused anti-immigrant coalition government. In addition, the new Czech prime minister is Andrej Babis who is strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

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

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding

bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

**Investment and borrowing rates**

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.

- Borrowing interest rates increased sharply after the result of the general election in June 2017 and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

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

**3.4 Borrowing strategy**

The PCC is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the PCC's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast* then the portfolio position will be re-appraised. This may arise from acceleration in the start date and in the rate of increase in central rates in the USA and UK; an increase in world economic activity; or a sudden increase in inflation risks. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the Resource Governance meeting at the next available opportunity.

Forecasting will take place in the first half of 2018/19 to determine the timing of any potential borrowing requirements. This planning will facilitate an efficient and informed response to any risk in interest rate increases.

The PCC is able to borrow at advantageous rates from the Public Works Loans Board (PWLB). It is anticipated that any projected future borrowing requirements would also be sourced through PWLB.

Borrowing is undertaken at a time appropriate to coincide with an identified dip in borrowing rates available and as long-term borrowing rates have not increased significantly and cash flows have remained strong, no new external borrowing has yet been taken in 2017/18. Current projections show it is likely to require borrowing prior to the end of the financial year.

The objective is to achieve a debt maturity profile, which ensures that no one year has a high level of repayments. This is a requirement under the Prudential Borrowing Guidelines.

Current loan terms match the life of the asset they are financing. Future loans will be considered for the most appropriate loan length, ensuring compliance with prudential indicators and consideration of long-term borrowing rates and maturity profiles.

All current loans have been taken on the basis of equal instalment of principal (EIP), which ensures payments are spread evenly across the term of the loan. Future strategies are to include the comparison and consideration of other available repayment bases and maturity loans.

With the exception of transferred borrowing, (which is based on a share of the average amount of interest paid on all Lincolnshire County Council debt), all long-term debt is at fixed rates of interest. Consideration has been given to the possible restructuring of the loans outstanding in order to take advantage of lower interest rates. However, the savings offered through the lower interest rates would not cover the significant penalties for early termination of some of the loans. Continued monitoring will be carried out to ensure early termination opportunities are maximised if appropriate.

### 3.5 Policy on borrowing in advance of need

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

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### 3.6 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

* the generation of cash savings and / or discounted cash flow savings;
* helping to fulfil the treasury strategy;
* enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Resource Governance, at the earliest meeting following its action.

# 4 ANNUAL INVESTMENT STRATEGY

## 4.1 Investment policy

The PCC's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The PCC's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the PCC applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end, the PCC will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

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

Investment instruments identified for use in the financial year are listed below. Counterparty limits will be as set through the PCC's treasury management practices – schedules.

## 4.2 Creditworthiness policy

This PCC applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

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

| | |
|---|---|
| *Yellow* | *5 years* |
| *Dark pink* | *5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25* |
| *Light pink* | *5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5* |
| *Purple* | *2 years* |
| *Blue* | *1 year (only applies to nationalised or semi nationalised UK Banks)* |
| *Orange* | *1 year* |
| *Red* | *6 months* |
| *Green* | *100 days* |
| *No colour* | *Not to be used* |

The Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the PCC use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored frequently. The PCC is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the PCC's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the PCC will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the PCC's lending list.

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

| Y | Pi1 | Pi2 | P | B | O | R | G | N/C |
|---|---|---|---|---|---|---|---|---|
| 1 | 1.25 | 1.5 | 2 | 3 | 4 | 5 | 6 | 7 |
| Up to 5yrs | Up to 5yrs | Up to 5yrs | Up to 2yrs | Up to 1yr | Up to 1yr | Up to 6mths | Up to 100days | No Colour |

| | Colour (and long term rating where applicable) | Money and/or % Limit | Time Limit |
|---|---|---|---|
| Banks | yellow | £4m / 20%* | 5yrs |
| Banks | purple | £4m / 20%* | 2 yrs |
| Banks | orange | £4m / 20%* | 1 yr |
| Banks – part nationalised | blue | £4m / 20%* | 1 yr |
| Banks | red | £4m / 20%* | 6 mths |
| Banks | green | £4m / 20%* | 100 days |
| Banks | No colour | Not to be used | |
| DMADF | AAA | unlimited | 6 months |
| Local authorities | n/a | £4m / 20%* | 1 yr |
| | Fund rating | Money and/or % Limit | Time Limit |
| Money market funds | AAA | £4m / 20%* | liquid |

*Whichever is the higher

### 4.3 Country limits

The PCC has determined that it will use any UK counterparties irrespective of rating and approved counterparties from non-UK countries with a minimum sovereign credit rating of AAA from Fitch. The list of countries that qualify using this credit criteria are provided by Link and is regularly reviewed. Changes will be notified to us should ratings change in accordance with this policy.

### 4.4 Investment strategy

**In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

**Investment returns expectations.**
Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%

- 2019/20 1.00%
- 2020/21 1.25%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

| | Now |
|---|---|
| 2017/18 | 0.40% |
| 2018/19 | 0.60% |
| 2019/20 | 0.90% |
| 2020/21 | 1.25% |
| 2021/22 | 1.50% |
| 2022/23 | 1.75% |
| 2023/24 | 2.00% |
| Later years | 2.75% |

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

**Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the PCC's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end, shown below:

The PCC is asked to approve the treasury indicator and limit:-

| Maximum principal sums invested > 365 days | | | |
|---|---|---|---|
| £m | 2017/18 | 2018/19 | 2019/20 |
| Principal sums invested > 365 days | £m<br>Nil | £m<br>Nil | £m<br>Nil |

For its cash flow generated balances, the PCC will seek to utilise its business reserve instant access and notice accounts, money market funds and the UK Government Debt Management Office, in order to benefit from the compounding of interest.

### 4.5 End of year investment report

At the end of the financial year, the PCC will report on its investment activity as part of its Annual Treasury Report.

# 5 APPENDICES

A Prudential and treasury indicators and MRP statement

B Treasury management scheme of delegation

C The treasury management role of the section 151 officer

## A. The Capital Prudential and Treasury Indicators 2018/19 – 2021/22

### Minimum revenue provision (MRP) policy statement

The PCC is required to charge an element of the accumulated capital spend each year through a revenue charge (minimum revenue provision - MRP). The PCC is allowed to make additional voluntary MRP payments, where it is considered prudent, to accelerate the payment of the debt or to ease cost pressures in future years.

CLG regulations have been issued which require the PCC to approve an **MRP Statement** in advance of each year. A variety of options are provided to PCCs, so long as there is a prudent provision.

The PCC's current policy is:

- For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP will be based on the CFR. This option is based on a 4% reducing balance MRP charge.
- From 1 April 2008 for all unsupported borrowing the MRP will be based on the life of the assets, in accordance with the regulations, however it does not need to reflect the same asset life as the asset policy recommends as long as the decision to vary this is prudent.

These options provide for a reduction in the borrowing need over the asset's life. It is possible to make a voluntary MRP charge (VRP) if required. This will be reviewed annually each year.

### Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the PCC's overall finances. The PCC is asked to approve the following indicators:

### Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

| Ratio of financing cost to net revenue stream | 2016/17 Actual | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|---|---|---|---|---|---|---|
| | % | % | % | % | % | % |
| Ratio % | 2.01 | 1.94 | 2.79 | 2.34 | 3.11 | 3.20 |

The estimates of financing costs include current commitments and the proposals in this budget report.

### Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the four year capital programme recommended in this budget report compared to the PCC's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a four year period.

| Incremental impact of capital investment decisions on council tax | 2015/16 Actual | 2016/17 Actual | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ |
| Band D Council tax £ | - | - | 0.82 | 5.30 | 2.97 | 2.28 | 2.13 |

| PRUDENTIAL INDICATOR TARGETS | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|
| **External Debt** | | | | | | |
| 1 **Authorised limit for external debt:** | | | | | | |
| **The PCC will set for the forthcoming financial year and the following three years an authorised limit for its total external debt, gross of investments, separately identifying borrowing from other long term liabilities** | | | | | | |
| Authorised limit for external debt: | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Borrowing | 27,603 | 30,008 | 45,881 | 50,921 | 49,921 | 47,921 |
| Other long term liabilities | 7,397 | 7,992 | 7,119 | 5,079 | 5,079 | 5,079 |
| **Total** | 35,000 | 38,000 | 53,000 | 56,000 | 55,000 | 53,000 |
| 2 **Operational boundary:** | | | | | | |
| The PCC will set for the forthcoming financial year and the following three years an operational boundary for its total external debt, gross of investments, separately identifying borrowing from other long term liabilities | £000 | £000 | £000 | £000 | £000 | £000 |
| Operational boundary: | | | | | | |
| Borrowing | 22,603 | 25,008 | 40,881 | 45,921 | 44,921 | 42,921 |
| Other long term liabilities | 7,397 | 7,992 | 7,119 | 5,079 | 5,079 | 5,079 |
| Total | 30,000 | 33,000 | 48,000 | 51,000 | 50,000 | 48,000 |
| **Treasury Management Indicators** | | | | | | |
| **Interest Rate Exposures** | | | | | | |
| The PCC will set for the forthcoming financial year and the following three years upper limits to its exposures to the effect of changes in interest rates | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| 3 Upper limit for fixed interest rate exposure: | | | | | | |
| Net principal re fixed rate borrowing less investments | **14,457** | **21,114** | **42,867** | **46,181** | 45,065 | 43,765 |
| 4 Upper limit for variable rate exposure: | | | | | | |
| Net principal re variable rate borrowing less investments | 4,337 | 6,334 | 12,860 | 13,854 | 13,519 | 13,129 |
| **Gross and Net Debt** | | | | | | |
| The PCC will set for the forthcoming financial year and the following three years upper limits on the proportion of net debt compared to gross debt | | | | | | |
| 5 Upper limit for net debt as percentage of gross debt: | 100% | 100% | 100% | 100% | 100% | 100% |
| 6 Ratio of financing costs to net revenue stream: | | | | | | |
| The PCC will estimate for the forthcoming financial year and the following three years the ratio of financing costs to net revenue stream | 2.01% | 1.94% | 2.79% | 2.34% | 3.11% | 3.20% |
| 7 Capital financing requirement: | | | | | | |
| **The PCC shall make reasonable estimates of the total of capital financing requirement at the end of the forthcoming financial year and the following three years** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Estimate of the capital financing requirement for the PCC | 29,260 | 32,643 | 47,670 | 50,332 | **49,216** | 47,916 |
| 8 Estimate of the incremental impact of capital investment decisions on the council tax: | | | | | | |
| The PCC will calculate the addition or reduction to council tax that results from any proposed changes to the capital programme | | | | | | |
| Band D council tax | £0.00 | £0.82 | £5.30 | £2.97 | £2.28 | £2.13 |
| 9 Maturity structure of new fixed rate borrowing: | | | | | | |
| The PCC will set for the forthcoming financial year both upper and lower limits with respect to the maturity structure of borrowing | | | | | | |
| | Upper Limit | .ower Limit | | | | |
| **Under 12 months** | 20% | 0% | | | | |
| **12 months and within 24 months** | 30% | 20% | | | | |
| **24 months and within 5 years** | 40% | 30% | | | | |
| **5 years and within 10 years** | 50% | 0% | | | | |
| **10 years and above** | 80% | 10% | | | | |

## B. Treasury management scheme of delegation including Section 151 Officer responsibilities.

The Commissioner has adopted CIPFA's 'Treasury Management in the Public Services: Code of Practice' ("the Code").

The Commissioner's CFO shall borrow, temporarily invest and repay monies, subject to any constraints imposed by statute or the CIPFA Code of Practice, and subject to the general directions and within any limits prescribed from time to time by the Commissioner. The Chief Constable does not have the power to undertake any borrowing or investment activity.

The Commissioner will approve the Treasury Management Strategy prior to the commencement of each financial year having first taken the advice of the Commissioner's CFO. The Commissioner's CFO shall report to the Commissioner from time to time during each financial year on treasury management activity and shall submit a Treasury Annual Report by the end of September each year.

The Commissioner's CFO may make arrangements for the Force Chief Finance Officer, other officers or a strategic partner to undertake or procure, in a manner acceptable to the Commissioner's CFO, the daily management of cash, loans and investment work.

No person shall borrow money on behalf of the Commissioner without the prior written approval of the Commissioner's CFO.

The Commissioner's Chief Finance Officer will approve the arrangements for the treasury management function, including the day to day management, the production of the treasury management strategy, and supporting policies and procedures.

## C. The Commissioner's CFO, Section 151 Officer, Responsibilities:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

12 January 2018

# Procurement Plan 2018/19

Police and Crime Commissioner for Lincolnshire

Chief Constable, Lincolnshire Police

## Background

1. The Police and Crime Commissioner and the Chief Constable are required to undertake procurement actions on a day to day basis. In general most of these decisions will be for purchases of a relatively minor basis and will be dealt with under delegated purchasing by individual departments. However there are occasions where the obligations being taken on by the PCC or the Force will be significant both in terms of the financial commitment and/or the timescales of the contract being entered into. In these circumstances the Strategic Procurement Unit (SPU) will manage the contractual process to ensure both compliance to legal and statutory requirements and advise on suitable timescales and routes to market.

2. The Strategic Procurement Unit keep a database of all contracts currently in place above £25k, which they manage on a day to day basis and ensure that where renewal actions are required that these are identified, planned and actioned on a timely basis. Further they ensure that the processes that are followed are undertaken in accordance with the relevant rules and standards connected with police procurement in the public sector.

## Current performance

3. The schedule attached, which was approved by the PCC, lists fixed term contracts with values above £25k and planned action on the expiry of these contracts (attached at Appendix A).

4. A summary of Lincolnshire's current overall spend identified in the above is shown below:

- Currently 60 live Contracts above £25k with a value of £7,619,385
- 33% (20) of contracts listed have an annual value above £100,000 and constitute 81% of spend
- 75% (45) of contracts listed were awarded under other police/public collaborative/framework arrangements and constitute 82% of spend
- 18% (11) of contracts listed were awarded under the PCC for Lincolnshire terms/arrangements and constitute 13% of spend.

5. A list of all fixed term managed contracts has been created and is overseen by the CPT and SPU to ensure timely renewal of any relevant Contracts.

## Priorities for 2018/19

6. The main emphasis of work in 2018/19 will be:

**Ongoing:**

- **Continued review of the large contracts list** to ensure that contracts above £25k that are due to expire are dealt with in a timely manner.

Updated versions of the large contracts list will be considered by the Resource Governance Meeting as required.

- **Continued review of the fixed term managed contracts list** throughout the year to ensure all renewals are dealt with in a timely manner. The renewal of any Contracts below £10k will be undertaken by individual departments and the CPU. The SPU will be involved with all renewals above £10k.

- **Review of the Procurement Risk Assessment** will be undertaken on an ongoing basis throughout the year as required.

- **t-Police will continue to be developed** as far as possible to improve procurement information available to the PCC and the Force, and to ensure the system is being used as efficiently as possible and to its full capability.

- **Updating the PCC and the Force on the new EU Procurement Regulations** as these are received and any implications that this will have on current processes.

- **Updating the PCC and the Force on the Collaborative Law Enforcement (CLEP)/Proxima Programme** as these are received and any implications that this will have on current processes.

- **Major Contract Work for 2018/19.** The following major procurements are due to be undertaken during the Financial Year 2017/18:
  - <u>Emergency Services Mobile Communications Programme (ESMCP/ESN).</u> This will include purchase of new devices but this is likely to be procured on a Regional basis. Awaiting further update from project lead.
  - <u>New Command and Control system/telephony.</u> Budget value is £2,150,000. This will be funded from the capital programme. Being procured by G4S under Strategic Partnership Contract.
  - <u>Upgrade of ANPR solution.</u> Budget value is £400k. Investigate national framework to see if suitable – mini-competition will be required. Otherwise, undertake EU Open competitive tender process.
  - <u>National Uniform Managed Service (NUMS).</u> Proposal being investigated prior to liaising with Force on recommendations of way forward. If NUMS is not implemented, all the current uniform contracts will need to be checked to ensure we have continuity of supply.
  - <u>Forensic Medical Examiner (FME) Services.</u> Contract to commence 1st September 2018. The contract period will be 2 years with 2 options to extend by 12 months each. Budget value is £1m per annum. This will be procured under a formal EU tender process.

- Taser consumables (cartridges, batteries, holders, etc). Estimated value is £30k. These will be procured by direct award under the National Home Office framework.
- Communication and Media Support for PCC. Budget value is approximately £30k per year. This is likely to be procured via a local tender process to put a two year contract in place.
- Digital evidence management system. Budget currently unknown. This is a national programme but being explored by the region, so this may be a regional solution. However, could fall back into local if what the region decides to go with does not meet our needs.
- National online home (External internet site for the public). Budget currently unknown. The Home Office are undertaking the procurement process for this but it is currently unclear what involvement local Forces will be required to give.
- Vehicle Telematics. Telematics to be introduced into their vehicles. No further details known yet regarding when, how many vehicles and what type of system. However, whichever system is chosen the value will be in excess of £25k.
- Fleet Capital budget. Budget value is £1,100,000. Most purchases will be under existing contracts/frameworks.
- Building Works Capital budget. Budget is £2,059,000. Includes CJS accommodation at HQ - budget of £165k; Force wide fire door replacement and passive fire– budget of £140k; Force wide accommodation upgrade and heat controls – budget of £165k; Phase 5 window replacement L&D Level 1 HQ – budget of £250k; Former custody suites repurpose at Louth, Sleaford and Spalding – budget of £250k; Dilapidations and enabling works for relocation of Occupational Health Unit (OHU) to FED Block – budget of £165k; Provision of Gyms Force wide (phase 2) – budget of £250k; Solar PV – budget of £300k.
- Supply and Installation of LED Lighting. Budget value is £349k. Undertake EU Restricted procurement process.
- Capital Programme. Budget value is £22,666,000. Any remaining projects not detailed above will be progressed as and when the relevant paperwork is received.

**Quarter 1 18/19:**

- **Review of alternative methods of scoring and evaluation for tenders.** The SPU will investigate alternative methods of scoring price and quality elements within Invitation to Tender processes for both local and EU tenders. This is to help aid the Force adapt to the revised COG policy direction.

**Quarter 2 18/19:**

- **Implementation of any amendments to the standard scoring and evaluation processes** that are identified in Quarter 1 and agreed by the Force and any relevant procurement documentation amended as required.

**Quarter 3 and Quarter 4 18/19:**

- **Investigation of alternative options for replacement of NPPH system.** The current contract for NPPH which is provided by Basware and is the order processing and catalogue management system that interfaces with t-Police expires on 30/06/19. The SPU will undertake market research and evaluate any alternative solutions in order to identify the best value option going forward. The SPU will also work with Basware to ensure the current NPPH system is being used to its full potential.

**Management and performance**

7. Performance targets and measures will include:

- Percentage of spending via national and regional frameworks or contracts
- Percentage of spending via other competitive processes
- Savings achieved on major contracts
- Percentage of purchase orders that are retrospective
- The Resource Governance Meeting will monitor delivery of this plan.