NOT CONFIDENTIAL – for public release

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

REF: 006/2017

DATE: 24 February 2017

SUBJECT	FINANCIAL STRATEGY AND SUPPORTING PLANS
REPORT BY	**Chief Finance Officer**
CONTACT OFFICER	**Sharon Clark, Chief Finance Officer** **Telephone 01522 558187**

EXECUTIVE SUMMARY AND PURPOSE OF REPORT

The Financial Strategy attached is intended to provide a framework and parameters for financial management.

It will be supported by annual budgets and plans.

The following are also attached to this report:

- Value for Money & Efficiency Plan 2017/18
- Procurement Plan 2017/18
- Treasury Management Strategy 2017/18

RECOMMENDATIONS	***That the following be approved:*** ***1. The Financial Strategy*** ***2. The Value for Money & Efficiency Plan 2017/18*** ***3. The Procurement Plan 2017/18*** ***4. The Treasury Management Strategy 2017/18 Including:*** ***A) The Minimum Revenue Provision described at paragraph 2.3 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.**	
Signature:	***Date:*** 24/2/17

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 2017/18 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: PCC's Chief Finance Officer recommends this proposal for the reasons outlined above.	
Financial advice: The PCC's Chief Finance Officer has been consulted on this proposal.	
The CC's Chief Finance Officer has been consulted on this proposal.	
Monitoring Officer: The PCC's Monitoring Officer has been consulted on this proposal	
Chief Constable: The Chief Constable has been consulted on this proposal	DCC

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:*** 24/2/17

February 2017

Financial Strategy 2017/18

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. Budget management
10. Procurement
11. Income and charging
12. Treasury management
13. 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 2018/19 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. Fairer 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 The PCC's CFO is on the technical group as part of the work towards a review of the funding formula, for possible implementation in 2018/19. It is expected that consultation on the proposals will take place in the spring 2017.

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; 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.

8.8 General reserves will be maintained around the mid-point of a target range based on the financial risk assessment in respect of residual financial risks.

9. Budget Management

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

9.2 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.

9.3 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.

9.4 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.

10. Procurement

10.1 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.

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

10.3 Procurement processes will promote

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

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

10.5 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.

11. Income and Charging

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

11.2 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.

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

11.4 All charges will be updated annually.

12. Treasury Management

12.1 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.

12.2 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.

12.3 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.

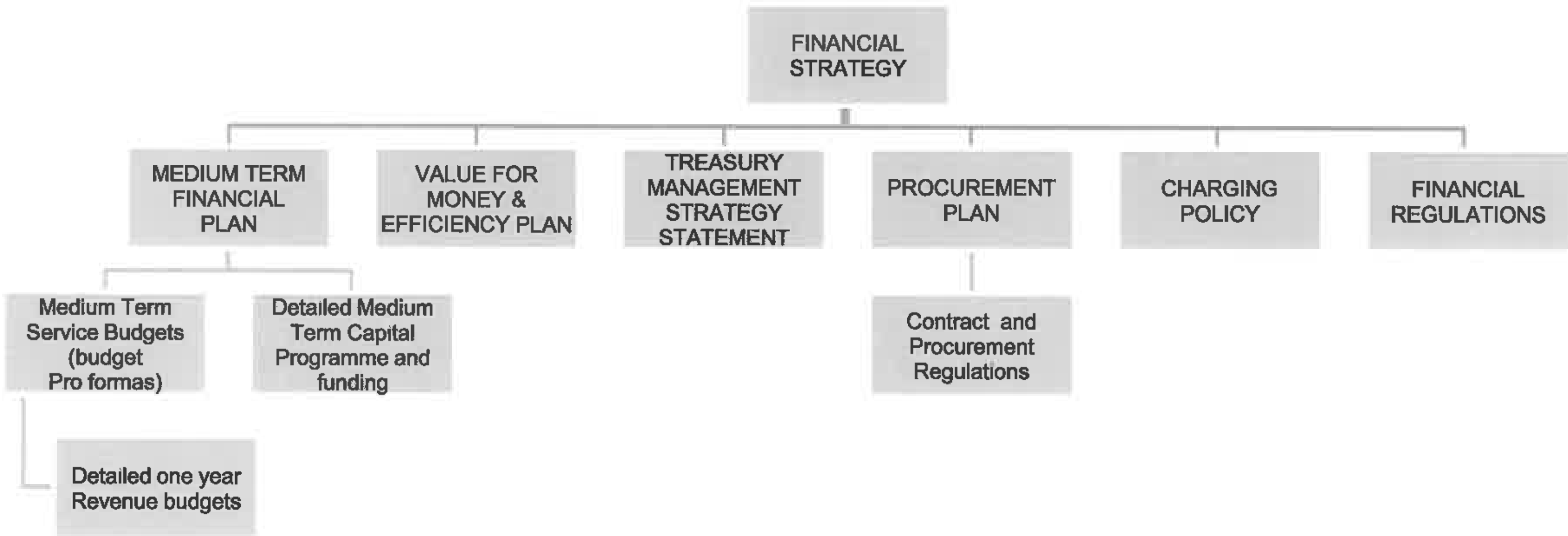
12.4 The Commissioner will agree targets for specified prudential indicators in relation to capital financing and other treasury management matters before the start of each financial year. The main purpose of these is to ensure that capital financing, in particular its long term borrowing, is prudent,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

13. Accounting and Financial Processes

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

13.2 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	General reserves	Maintained around the mid-point of a target range based on a financial risk assessment, currently around 5% 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
	Financial performance	
7	Revenue budget management	More than 50% of budgets managed to within 1%.
8	Capital programme management	Actual capital spending managed to more than 80% of the approved programme.
9	Income from fees and charges	Annual Income from fees and charges (with the exception of mutual aid) to exceed £1m.
10	Income collection	Average number of debtor days not to exceed 30 days.
11	Payments	More than 90% of undisputed invoices to be paid within 30 working days.
12	G4S contract – finance functions	100% of G4S contractual targets achieved.
	Treasury management	
13	Interest earned	Interest rate on investments higher than average bank rate.
14	Interest paid	Interest paid on new long term borrowing less than average government borrowing rate.
	Procurement	
17	Extent of competition	Percentage of spending via national and regional frameworks and other competitive processes
16	Major contracts	Savings achieved on major contracts

16 February 2017

Value for Money & Efficiency Plan 2017/18

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 Funding Formula Review, where initial exemplifications of the proposed new model recognised approximately an additional £8 million of grant funding for Lincolnshire. The delay in concluding and implementing the new funding methodology means that Lincolnshire will continue to face the challenge of delivering services to the people of Lincolnshire with a lower level of funding than comparable forces receive.

Lincolnshire Police is the second lowest funded force in England and Wales, when taking into account all funding, and has the third 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 innovative and collaborative in its approach to providing policing services, making large scale changes to the way that the force carries out both specialist and back office functions, as well as creating capacity within the organisation to be flexible to new, emerging areas of crime and continuing to provide neighbourhood policing and maintain visibility.

Lincolnshire Police, like most other public bodies, has had to make substantial savings over the first austerity period. The continuing reduction in funding, now exceeding twenty percent since 2011, presents a challenge to Lincolnshire Police due to the extensive efforts that have already been made, including the strategic partnership with a private sector company, which while providing significant savings to the force, reduces the options for developing further savings through workforce reduction.

Despite this issue, the force performs well against the 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.

1.3 HMIC have provided a detailed set of VFM profiles based on the Police Objective Analysis. Lincolnshire spends the third 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.

1.4 The provisional police grant announcement and House of Commons written statement on the Police Provisional Funding Announcement were laid in Parliament on 15th December 2016. The police settlement covers just one year. The Provisional Grant settlement for 2017/18 included an announcement that police spending would be protected at flat cash levels compared to 2015/16 assuming that precept income is maximised within the limit set of 2%.

1.5 The provisional grant includes a cash cut of £0.821m (1.4%) for Lincolnshire for 2017/18 compared to 2016/17. The level of cash cut had been expected to be similar to that in 2016/17, whereas it has increased so that the total percentage reduction since 2015/16 is now 2%.

1.6 The Police Grant Report (England & Wales) 2017/18 was laid before the House of Commons on 1st February 2017. The allocations are the same as set in the Provisional Police Grant Report of 15th December.

1.7 Given that the cash reduction was greater than expected, it is clear that the service will come under increasing pressures to meet new demands from within a reducing budget in real terms and will require a draw on reserves to balance the budget in 2017/18.

1.8 The Budget for 2017/18 has been set against considerable cost pressures, representing a £3.5m increase in costs from 2016/17. These include pay awards of £1.4m, historic pension costs of £0.3m and the newly introduced Apprenticeship Levy of £0.36m.

1.9 Lincolnshire police services therefore have to be managed rigorously given that there has been no overall increase in funding in 2017/18, to minimise the draw on reserves required.

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 2015/16	48.9	52.0	3.1
999 calls per 1,000 population 2015/16	106	96	10
Number of Police Officers per 1,000 population 2015/16	1.38	1.70	0.32
Number of PCSOs per 1,000 population 2015/16	0.2	0.2	-
Expenditure per head of population / per day 2015/16	43p	50p	7p
Total Crimes (excluding fraud) per visible officer 2015/16	61.5	51.8	9.7
Charged/Summonsed per visible officer 2015/16	10.7	8.3	2.4
Victim Overall User Satisfaction % (12 month average as at January 2017)	81.4% (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 test 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 provides 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 2017/18

4.1 The main emphasis of work in 2017/18 will be on:

- **Delivering planned savings** for 2017/18. Planned cumulative savings of over £24 million have been delivered successfully over the last five years. There are limited opportunities for the achievement of further savings without serious service degradation. The budget for 2017/18 identifies a further £1.9m 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 operates a programme of change branded **Progress: Shaping our Future,** which documents the measures in place to provide the force with the additional capabilities it needs to meet future challenges.

- 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.

  In 2017/18 the Value for Money & Efficiency work will focus on:

  - 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 is expected to deliver time savings of 30 minutes per officer per shift, and this is currently being evaluated using time and motion studies. Mobile Data will be rolled out to PCSOs and some Special Constables in 2017/18 to further improve efficiency and time savings. Complete coverage of the force is not possible due to funding constraints.

  - **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 time per month to manually process requests for overtime and correct assumed to duties to the times that officers have actually worked.

- The force completed the first phase of its '**Policing Model Project'** during 2016, which reviewed the baseline resources to address emerging areas of crime presenting a greater threat, harm and risk to the public. The force conducted a Priority Based Budgeting (PBB) exercise in 2016, examining Improved, Current and Reduced scenarios for all service areas and has identified a number of priorities for improvement and better use of resources. These will form the second phase of the Policing Model Project, due to commence within the financial year 2017/18.

- 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.

- **Fleet**: 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.

5. Management and Performance

5.1 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.

5.2 Independent assessments of the delivery of value for money are also provided by the external auditor and by HM Inspectorate of Constabulary.

18 January 2017

Procurement Plan 2017/18

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 52 live Contracts above £25k with a value of £6,620,168
- 31% (16) of contracts listed have an annual value above £100,000 and constitute 79% of spend
- 75% (39) of contracts listed were awarded under other police/public collaborative/framework arrangements and constitute 86% of spend
- 17% (9) of contracts listed were awarded under the PCC for Lincolnshire terms/arrangements and constitute 9% 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 2017/18

6. The main emphasis of work in 2017/18 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) Programme** as these are received and any implications that this will have on current processes.

- **Major Contract Work for 2017/18.** 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 project as a whole has been delayed nationally and is scheduled to go live by end of 2018. It will include replacement Airwave terminals (budget value is £285,970) and vehicle fitters but these are likely to be via a national/regional procurement. Telephony is also included in this project.
  - <u>New Command and Control system.</u> Budget value is £1M. This will be funded from the capital programme. Procurement route currently unknown.
  - <u>Upgrade of ANPR solution.</u> Budget value is £366k. A full EU tender process will be completed for this requirement.
  - <u>EMOpSS Vehicle fleet procurement to replace Volvo who are unable to supply the current vehicles after this year.</u> A tender process will be completed for this, which will be managed by EMSCU on behalf of the four Forces.
  - <u>Replacement of TASER X26.</u> Home Office likely to stipulate replacement of current Taser units to TASER X2 version. This will be an exceptional purchase action due to only one approved product being available on the market. Estimated value will be £700-£1,000 per unit for approximately 250 units for Lincolnshire Police and approximately 100 units for EMOpSS (Lincs).
  - <u>ICCS.</u> Budget value is £600k+. No further details currently known.

- New vehicles related to Policing Model Project. No further currently details known.
- Fleet Capital budget. Approximately £150k will be allocated to commissioning of vehicles with approximately £70k being procured by running a formal competitive process under the Sussex Police framework. The remaining costs will either fall under the delegated value or be performed in-house. Approximately £1.05M will be allocated to procuring base vehicles which will be purchased under Lots 7 and 8 of the CCS Framework RM1070.
- Building Works Capital budget. Includes refurbishment of FED block at HQ – budget of £115k; HQ Car park improvements – budget of £300k; Solar PV Phase Main Building at HQ – budget of £260k; Replacement UPS system at Grantham – budget of £40k; Phase 3 force wide fire door replacement & passive fire protection – budget of £160k; HQ Stores Roof – budget of £40k; equipment room flat roof at Grantham – budget of £40k.
- Capital Programme. Any remaining projects not detailed above will be progressed as and when the relevant paperwork is received.

Quarter 1 17/18:

- **Implementation of new suite of Tender documents.** The SPU will review all the tender documentation currently used during tender processes to ensure they reflect current needs and any updated legal/procurement regulations. A new master suite of documents will be drafted and agreed with input from EMPLS/PCC/Force and relevant user departments as required.

Quarter 2 17/18:

- **Evaluation of opportunities/benefits to getting more catalogues/punch-outs set up on t-Police.** This will be dependent on the final decision made by the Force/PCC as to the future use of NPPH.

Quarter 3 17/18:

- **Review of procurement processes and activities.** The SPU will review all processes and activities completed by the Unit to ensure they are still required and that the best options are being undertaken. The SPU will identify any areas where amendments to the processes need to be undertaken or where improvements can be made.

Quarter 4 17/18:

- **Implementation of any amendments/improvements to procurement processes** that have been identified in Quarter 2 and agreed with the PCC/Force.

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.

Treasury Management Strategy Statement 2017/18

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 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 members 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 2017/18

The strategy for 2017/18 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 Capita 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 2017/18 – 2019/20

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 members' 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. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Building Schemes	1,155	2,232	1,849	1,500	1,000
Business Transformation	0	0	0	0	0
Blue Light PIF	0	1,644	6,445	11,245	0
ICT	1,215	1,786	4,501	1,500	500
Vehicles	743	1,000	1,200	1,200	600
Other / ESMCP	712	548	1,720	1,320	0
Total	**3,825**	**7,210**	**15,715**	**16,765**	**2,100**

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	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Total	**3,825**	**7,210**	**15,715**	**16,765**	**2,100**
Financed by:					
Capital receipts	-	-	260	260	260
Capital grants & Contributions	0	4,032	7,800	6,429	457
Capital reserves	0	205	0	0	0
Revenue	0	60	0	0	0
Net financing need for the year	**3,825**	**2,913**	**7,655**	**10,076**	**1,383**

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.

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 £6.7m of such schemes at 31 March 2017 within the CFR (£6.4m in 2015/16).

The PCC is asked to approve the CFR projections below:

£000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Capital Financing Requirement					
CFR Opening Balance *Restated 2016-17	**29,849**	**28,962**	**30,179**	**36,274**	**44,670**
Movement in CFR	**(887)**	**1,217**	**6,095**	**8,396**	**(159)**
Total CFR	**28,962**	**30,179**	**36,274**	**44,670**	**44,511**

Movement in CFR represented by					
Net financing need for the year	3,825	2,913	7,655	10,076	1,383
Less MRP/VRP and other financing movements	1,904	1,696	1,560	1,680	1,542
Movement in CFR	**1,921**	**1,217**	**6,095**	**8,396**	**(159)**

Note: this table has changed from last year slightly due to the change in CFR calculation which has resulted in the opening balance being restated. This will be reflected in the notes to the accounts in 2016/17.

Forecast MRP figures exclude any VRP payments (see 2.3 below).

2.3 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.

2.4 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	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Fund balances / reserves	19,984	18,421	19,792	20,979	20,872
Capital receipts	-	-	260	260	260
Provisions	817	268	268	268	268
Other	-	-	-	-	-
Total core funds	**20,801**	**18,689**	**20,320**	**21,507**	**21,400**
Working capital*	(3,886)	(3,886)	(3,886)	(3,886)	(3,886)
Under borrowing	(8,296)	(11,503)	(15,483)	(16,673)	(16,656)
Expected investments	**8,619**	**3,300**	**951**	**948**	**858**

*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 Up Grant is received.

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 2016, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt at 1 April	14,566	13,252	12,192	12,800	20,878
New loans	-	-	1,500	9,000	3,000
Repayments	(1,314)	(1,060)	(892)	(922)	(1,102)
Finance Lease	7,414	6,485	7,992	7,119	5,079
Actual gross debt at 31 March	**20,666**	**18,677**	**20,792**	**27,997**	**27,855**

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 2017/18 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	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	33	37	46	46

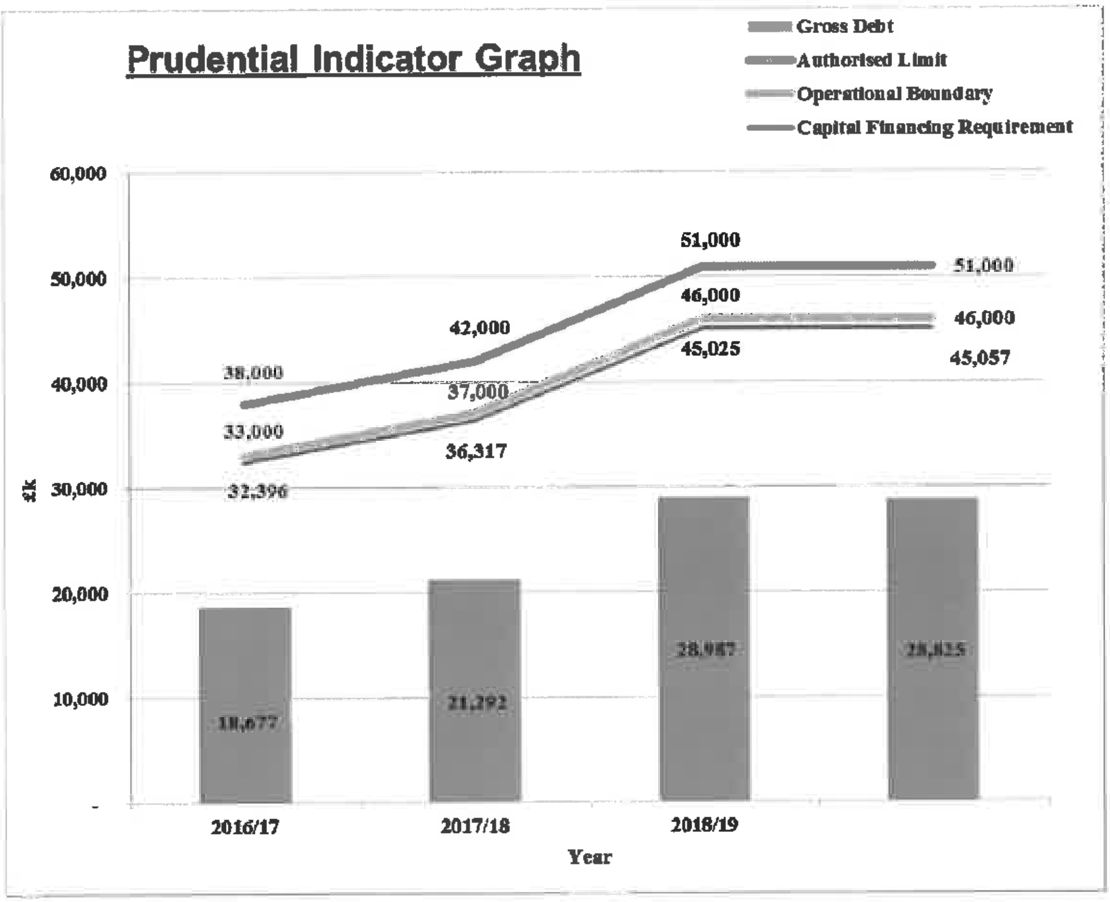
The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the PCC. It reflects the level of external debt which, while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

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.

The PCC is asked to approve the following authorised limits:

Authorised limit £m	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	38	42	51	51

Projections of CFR and borrowing



3.3 Prospects for interest rates

The PCC has appointed Capita 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 our central view.

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

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth.

The **referendum vote for Brexit** in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

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 longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been 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, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. 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 strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may 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 would be likely to exert some upward pressure on bond yields in other developed countries but 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 in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

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

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.

- Major national polls:
    - Italian constitutional referendum 4.12.16;
    - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
    - Dutch general election 15.3.17;
    - French presidential election April/May 2017;

- French National Assembly election June 2017;
- German Federal election August – October 2017.

- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

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

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

Investment and borrowing rates

Investment returns are likely to remain low during 2017/18 and beyond;

Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;

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

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 2017/18 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.

- Forecasting will take place in the first half of 2017/18 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.

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

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 2016/17. Current projections show it is likely to require borrowing in 2017/18

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 Capita 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*

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**	**£XXm / %**	**liquid**

*Whichever is the higher

The Capita 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 Capita 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 Capita 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.

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 Capita 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 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

2016/17 0.25%
2017/18 0.25%
2018/19 0.25%
2019/20 0.50%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

	Now
2016/17	0.25%
2017/18	0.25%
2018/19	0.25%
2019/20	0.50%
2020/21	0.75%
2021/22	1.00%
2022/23	1.50%
2023/24	1.75%
Later years	2.75%

The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

Investment treasury indicator and limit - total principal funds invested for greater than 364 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.

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

Maximum principal sums invested > 364 days			
£m	**2017/18**	**2018/19**	**2019/20**
Principal sums invested > 364 days	£m Nil	£m Nil	£m 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 2017/18 – 2019/20

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	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	%	%	%	%	%
Ratio %	2.27	2.01	1.83	2.05	1.78

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 three 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 three year period.

Incremental impact of capital investment decisions on council tax	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£	£	£	£	£
Band D Council tax £	-	0.18	0.53	2.06	1.28

PRUDENTIAL INDICATOR TARGETS	2015/16	2016/17	2017/18	2018/19	2019/20
External Debt					
1 **Authorised limit for external debt:**					
The PCC will set for the forthcoming financial year and the following two 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
Borrowing	12,586	29,515	34,008	42,881	44,921
Other long term liabilities	7,414	6,485	7,992	7,119	5,079
Total	20,000	36,000	42,000	50,000	50,000
2 **Operational boundary:**					
The PCC will set for the forthcoming financial year and the following two 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
Operational boundary:					
Borrowing	7,586	24,515	29,008	37,881	39,921
Other long term liabilities	7,414	6,485	7,992	7,119	5,079
Total	15,000	31,000	37,000	45,000	45,000
Treasury Management Indicators					
Interest Rate Exposures					
The PCC will set for the forthcoming financial year and the following two years upper limits to its exposures to the effect of changes in interest rates	£000	£000	£000	£000	£000
3 Upper limit for fixed interest rate exposure:					
Net principal re fixed rate borrowing less investments	4,633	15,376	19,840	27,049	26,997
4 Upper limit for variable rate exposure:					
Net principal re variable rate borrowing less investments	1,390	4,613	5,952	8,115	8,099
Gross and Net Debt					
The PCC will set for the forthcoming financial year and the following two 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%	200%	200%
6 Ratio of financing costs to net revenue stream:					
The PCC will estimate for the forthcoming financial year and the following two years the ratio of financing costs to net revenue stream	2.27%	2.01%	1.83%	2.05%	1.78%
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 two years	£000	£000	£000	£000	£000
Estimate of the capital financing requirement for the PCC	28,962	30,179	36,274	44,670	44,511
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	£0.18	£0.53	£2.06	£1.28
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	Lower 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.