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FOIA – Open

Independent Audit Committee

Meeting: **Tuesday, 13th December, 2022 at 9.30 am**

Venue: **Microsoft Teams**

AGENDA

1. Apologies for absence

To record apologies for absence received from members.

2. Declarations of Interest, Equality and Health and Safety Obligations

To receive new declarations by members of (a) personal interest [including their nature] and (b) prejudicial interests and to remind members of their responsibility to consider equality and health and safety in all of their decisions.

3. Minute Items [FOIA - Open] (Pages 1 - 8)

To confirm the minutes from the previous Independent Audit Committee.
To be presented by the Chair.

4. Action Log [FOIA - Open] (Pages 9 - 10)

To review the action log and receive updates for ongoing actions.

5. Significant Committee Business [FOIA – Open]

To be presented by the Chair.

6. Devon and Cornwall Capital, Treasury Management and Reserves Strategies [FOIA - Open]

a) Covering Report (Pages 11 - 14)

b) Mid-year Treasury Management Report (Pages 15 - 28)

c) Draft Treasury Management Report (Pages 29 - 66)

d) Draft Capital Strategy (Pages 67 - 76)

e) Draft Reserves Strategy (Pages 77 - 84)

To be presented by Nicola Allen

7. Dorset Capital, Treasury Management and Reserves Strategies [FOIA - Open]

a) Covering Report (Pages 85 - 88)

b) Mid-year Treasury Management Report (Pages 89 - 102)

c) Draft Treasury Management Strategy (Pages 103 - 136)

d) Draft Capital Strategy (Pages 137 - 146)

e) Draft Reserves Strategy (Pages 147 - 154)

To be presented by Julie Strange.

8. Internal Audit Quarterly Report [FOIA - Open] (Pages 155 - 156)

a) Appendix A [FOIA - Closed S.22] (Pages 157 - 158)

To report on the work of internal audit over the last quarter.
To be presented by Charlotte Wilson/Dave Hill.

9. External Audit Quarterly Report [FOIA - Open]

a) Quarterly Report (Pages 159 - 176)

b) Auditor's Annual Report for Dorset PCC and Chief Constable 2020/21 (Pages 177 - 196)

c) Informing the Audit Risk Assessment (Pages 197 - 236)

To report on the work of external audit over the last quarter.
To be presented by Alex Walling/Mark Bartlett.

10. Budget Preparation Update Devon and Cornwall/Dorset [FOIA - Open]

A verbal update to be presented by Neal Butterworth.

11. Fraud and Corruption Investigations (inc. NFI) [FOIA - Closed S.22] (Pages 237 - 248)

To report on fraud and corruption activity over the last 6 month period.
To be presented by Jo George.

12. Audit Action Report Devon and Cornwall/Dorset [FOIA - Open] (Pages 249 - 254)

To be presented by Jo George.

13. PSAA Auditor Appointment Process [FOIA - Open] (Pages 255 - 258)

To present the latest position on the auditor appointment process.
To be presented by Karen James.

14. Chief Constable/PCC (Open Invitation) - Devon & Cornwall [FOIA - Open]

To be presented by the PCC/Chief Constable

15. Chief Constable/PCC (Open Invitation) - Dorset [FOIA - Open]

To be presented by the PCC/Chief Constable

Attendance

Tom Grainger (Chair)	Vice Chair
Phil Rook (Vice-Chair)	Committee Member
Gordon Mattocks	Committee Member
David Bowles	Committee Member
Rachael Tiffen	Committee Member
Sandy Goscomb	Director of Finance and Resources
Tim Newman	Chief Finance Officer Dorset
David Sidwick	Police and Crime Commissioner Dorset
Nicola Allen	Treasurer (OPCC Devon and Cornwall)

Neal Butterworth	Head of Finance (Devon and Cornwall and Dorset Police)
Julie Strange	Treasurer (OPCC Dorset)
Lucinda Hines	Head of Technical Accounting (Alliance)
Karen James	Head of Alliance Audit, Insurance and Strategic Risk Management
Jo George	Senior Audit Manager
Alex Walling	Director (Grant Thornton)
Mark Bartlett	Audit Manager (Grant Thornton)
David Hill	Chief Executive South West Audit Partnership
Charlotte Wilson	Assistant Director South West Audit Partnership
Frances Hughes	Chief Executive (OPCC Devon and Cornwall)
James Colwell	T/ Chief Constable (Devon and Cornwall)

Apologies

Alison Hernandez	Police and Crime Commissioner (Devon and Cornwall)
Simon Bullock	Chief Executive (OPCC Dorset)
Scott Chilton	Chief Constable (Dorset)

The Public Sector Equality Duty (PSED) as set out in **section 149 of the Equality Act 2010** requires public bodies to have **due regard** to the need to:

1. Eliminate unlawful discrimination, harassment, victimisation and any other prohibited conduct prohibited by the Act; and

2. Advance equality of opportunity between people who share a protected characteristic and people who do not share it; and

3. Foster good relations between people who share a protected characteristic and people who do not share it.

Protected Characteristics are age; disability; gender reassignment; pregnancy and maternity; race (including ethnic or national origins, colour or nationality; religion or belief (including lack of belief); sex and sexual orientation.

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Handling Instructions: For Independent Audit Committee use only
FOIA – Open

Independent Audit Committee
Tuesday 27th September 2022 at 09:30
Via Microsoft Teams

MINUTES

Attendance

Tom Grainger	Interim Chair
Gordon Mattocks	Committee Member
David Bowles	Committee Member
Rachael Tiffen	Committee Member
Phil Rook	Committee Member
Sandy Goscomb	Director of Finance and Resources
Neal Butterworth	Head of Finance (Devon and Cornwall and Dorset Police)
Julie Strange	Treasurer (OPCC Dorset)
Tim Newman	Chief Finance Officer Dorset
Lucinda Hines	Head of Technical Accounting (Alliance)
Karen James	Head of Alliance Audit, Insurance and Strategic Risk Management
Jo George	Senior Audit Manager
Alex Walling	Director (Grant Thornton)
Mark Bartlett	Audit Manager (Grant Thornton)
David Hill	Chief Executive South West Audit Partnership
Tracey Kirkpatrick	Principle Auditor South West Audit Partnership

Apologies

David Sidwick	Police and Crime Commissioner Dorset
Jim Colwell	T/Chief Constable (Devon and Cornwall)
Nicola Allen	Treasurer (OPCC Devon and Cornwall)
Frances Hughes	Chief Executive (OPCC Devon and Cornwall)
Simon Bullock	Chief Executive (OPCC Dorset)
Oliver Marks	Alliance Information Management
Tim Newman	Chief Finance Officer Dorset
Alison Hernandez	Police and Crime Commissioner (Devon and Cornwall)

Frances Hughes	Chief Executive (OPCC Devon and Cornwall)
Scott Chilton	Chief Constable (Dorset)

03/22/01 Election of a Chair

KJ conducted the election of the Chair. DB nominated TG and GM seconded. No other nominations were received, and Tom Grainger was appointed as Chair of the Committee for 2022/23. TG expressed his thanks.

03/22/02 Election of a Vice Chair

TG conducted the election of the Vice Chair. TG nominated PR and GM seconded. No other nominations were received, and Phil Rook was appointed as Vice Chair of the Committee 2022/23. PR expressed his thanks.

03/22/03 Apologies for absence

As recorded above.

03/22/04 Declarations of Interest, Equality and Health and Safety Obligations

KJ declared an interest as a director of SWAP. SG declared an interest as a member of the Owners Board of SWAP on behalf of Regional Forces. RT declared an interest in relation to an item 261 on the action log. She is a Director of CIFAS that provides training on Economic Crime. These declarations remain valid for 12 months. It is the responsibility of attendees to notify the Committee if there are changes during the 12-month period. Annual declarations will take place unless there is something new during the year.

TG conveyed that although there is a new committee much of the focus and work will remain the same. TG expressed a preference for cameras to be left on during the meetings and microphones to be turned off. TG felt the prepared Q & A approach can limit discussion and hopes to increase debate and challenges. TG requested that introductions to the reports contain something new and not that which has already been read. In line with H&S obligations the meeting will continue with breaks approximately every 50 minutes. TG proposed changing the agenda for item 13 to sit under item 9 and an additional item at the end of the agenda for feedback to the Corporation Soles.

03/22/05 Open Minute Items [FOIA – Open]

IAC raised whether there is an opportunity to prioritise energy saving schemes. SG explained this is being reviewed for next year's DCP budget. DCP has employed a Sustainability Manager and is investing in energy management. JS advised Dorset is also exploring how to reduce carbon and energy savings.

IAC asked for an update on the action being taken to reduce the significant corporate risk areas and an update on the work to determine Force tolerance of risk. It was agreed that this will be reported at December meeting.

Action: An update on these specific risk management arrangements would be presented at the December 2022 meeting by Teri Roberts/Phil Rigg.

03/22/06 Closed Minute Items [FOIA – Various]

No issues raised.

03/22/07 Action Log [FOIA – Open]

The action log was reviewed, and updates were received for ongoing actions. TG requested that the action regarding Sailpoint is left open.

Action 261 – KJ agreed to enquire about the level of fraud and corruption training provided to staff within the Professional Standards Department.

03/22/08 Significant Committee Business [FOIA – Open]

The Chair referred to the progress made by the Committee since its inception five years ago. Much of that was the result of the commitment of the previous Chair, Helen Donnellan. The Committee wished its gratitude for Helen's work to be acknowledged and recorded. It was agreed that, on behalf of the Committee, the Chair would write to Helen expressing thanks.

The Chair then outlined future proposed developments in the way in which the Committee intended to work. The concept of each member taking a lead on subject/ topic areas would be taken forward. The aim is to ensure that scrutiny of the topic is comprehensive, and that the Committee sees the appropriate documents and sources of assurance. Other developments include extending the Committee's workplan to cover a longer period than the current twelve months, reviewing the clarity of minutes, co-ordinating the preparation of advance questions by using shared technology and evolving the training and development plan to link with the skills and qualities required in the person specifications for Committee members.

TG asked the Chief Finance Officers for an update on significant impacts on each forces finances in the current challenging economic times. SG stated the budget setting situation is unusual and there is much uncertainty due to inflation and grants and so forth. SG reassured IAC the financial situation for DCP will be within budget for the current year despite above expected inflation and the pay award, as grants have been received to cover these costs. However, there is enormous uncertainty and challenges for next year and beyond due to the increase in energy prices and staff pay as well as other pressures, and the comprehensive spending review will be cap expenditure within the Public Sector. If pay awards are higher than expected this will have to be provided from the budget and maintaining police officers is a key issue for DCP. All Forces are working together for consistency to put forward their position to the Government.

TN spoke of the same uncertainties and challenges around the staff pay award that will affect Dorset going forward. However, Dorset is also facing challenges this year around staff pay. A cost saving programme is in place but there will be difficult decisions to be made around budget setting. GM asked for reassurance on dialogue on deliverability and JS advised achievability is discussed at the Joint Resources Board.

SG announced that Will Kerr has been appointed by the PCC as the Chief Constable for Devon and Cornwall Police. SG gave a brief update on the new CC's background, and that it is anticipated he will be in post by January 2023.

03/22/09 Internal Audit Quarterly Update and Highlights [FOIA – Open]

Agenda item 13 was considered at the same time as DH gave his presentation.

TK highlighted the major projects and updated on the progress of reviews. TK assured IAC all projects are on track and indicated when drafts will be available.

DH presented the report on Internal Audit Delivery and advised that discussions had taken place with section 151 Officers on how to move forward to deliver more with less. The CIPFA report 'Untapped Potential' was noted in relation to the proposed SWAP delivery plan. SWAP had provided written responses to the questions posed by IAC and advised that all actions are followed up in-house.

TK assured IAC there are no significant changes intended for the 2022/23 plan and it was agreed to share a copy of the audit plan on the shared IAC drive.

Action: JG to arrange for the Audit plan to be placed on the IAC shared drive.

IAC asked whether coverage on a risk-based approach applies on areas that reduce external audit work time. TK explained that External Audit (EA) cannot rely directly on Internal Audit work. However, SWAP is due to meet with EA to share knowledge and ensure an awareness of each other's work. TK advised there will be insights from more analytics and SWAP already request data for all reviews. Comparative data is being provided for a common audit across the police partner forces this year and this will continue, parallel to regional audits.

IAC asked for an update on the outcome of the investigations around the ammunition and armoury review.

TK clarified the reason in the proposal for arrangements for 2023 onwards to meet with the CEO/DCC instead of the PCC/CC is that as they have a more operational focus and access to relevant information to inform planning.

SWAP reassured IAC the trusted advisor relationship works well. There is good regular communication and SWAP is approached for ad hoc advice work. DH confirmed the intention to provide training to all SWAP police force partners.

03/22/10 Statement of Accounts for Devon and Cornwall 2021/22 [FOIA – Open]

PR congratulated LH and her team on well-presented set of accounts, and narrative forward highlights for the year. NB thanked LH and the finance team for their work. LH reassured IAC about the pension liabilities, as although they look significant this is just an accounting adjustment and will have no impact on the financial outcome for the Force. TG stated that because of ongoing audits the papers were only received a couple of days before scrutiny and therefore other questions may be raised, however, there is nothing further at present. TG confirmed IAC could see no reason why the accounts could not be signed off.

SG presented last year's finance report and informed that in terms of financial governance DCP compiled a summary report to Resources Board. The total cost of G7 is declared separately in the accounts. Uplift targets had to be met to achieve grants, and DCP did well to exceed the number of recruits with support from the PCC. Reserves are reasonable, and a budget error reported at IAC on internal structures has been managed out. DCP are in a good place to start 22/23, they have a robust strategy and have provided mitigation.

03/22/11 External Audit Quarterly Report [FOIA - Open]

AW advised the 2020/21 statements for DCP have now been issued, audits have been completed and closed. Most of the work for Dorset for 2020/21 has been done, however Grant Thornton is waiting on the independent pension fund audit to be completed and it is anticipated the draft report will be released in October. GT aim to start the Dorset audits for 2021/22 in mid-November 2022 and will keep the finance team updated. PR asked for reassurance this will be delivered and will not slip. AW assured IAC GT will do all they can to deliver the work and MB advised that the information would come to the next meeting. Work is also in progress on Value for Money 2021/22. GT have followed up the actions taken by management and are satisfied the risk has been addressed. AW said that site visits had been done and recommendations were made around IT, and it is hoped to issue the report by the end of January 2023. The new issues and risks that were picked up have received management responses.

MB highlighted key points and expressed his thanks to LH and the Finance team for their assistance in putting together the audit report. MB also stated that the Letters of Representation are entirely standard with no additional requests.

The Committee highlighted the impact of ongoing delays on the finance team and sought assurance around the deliverability of the audit work programme.

TG asked if GT is following through the audit action plan for IT management response and if they are satisfied it is or is planned to be implemented. MB assured that appropriate actions have been agreed by management and GT will be following up as part of the planning work to ensure those actions have been implemented.
PR asked MB to provide timelines for responses.

Action: MB to provide timelines for responses to the Grant Thornton action plan.

It was noted that background papers for item 11 had also been circulated for information showing the completeness of the 2020/21 audit process for Devon and Cornwall.

The Committee raised concerns about the delay in receiving the certificate and recommended that whilst it is acknowledged this is a sector issue, it needs to be addressed and questions will continue to be asked by members.

03/22/12 Annual Assurance Mapping Report [FOIA - Open]

JG provided a background on the development of the report and advised that a combined map has been applied for both forces. IAC suggested it would be more helpful to create a separate map for each Force going forward and this was agreed.

Action: JG to create a separate assurance map for each force going forward.

JG highlighted items showing red and reassured IAC that work is being done to embed sustainability into business cases and to calculate carbon costs and offset costs for the carbon footprint. It was noted Dorset does not have an environmental sustainability policy and Jo Mosely, Director of People and Support Services is in discussion with the CC and PCC to develop a strategy once an approach is agreed.

GM proposed the Fraud and Corruption report is presented more frequently. There was a discussion, and it was agreed to present the Fraud and Corruption report every 6 months instead of every 2 years.

Action: KJ/JG to arrange for the Fraud and Corruption report to be presented every 6 months.

03/22/13 CIPFA Report – Internal Audit – Untapped Potential [FOIA - Open]

This item was discussed and minuted under item 03/22/09

03/22/14 PSAA Procurement Process Update [FOIA - Open]

KJ presented the report and confirmed that consultation on proposed audit appointments is due to start on 3 October. KJ advised the Corporation Soles are planning to make representations. SG raised concerns should different auditors be appointed. Both SG and JS will be putting forward a case to have the same auditors. PR concurred.

The reported was noted.

03/22/15 Annual Review of the Terms of Reference and Operating Principles [FOIA – Closed S.41]

IAC noted the Terms of Reference and Operating Principles and that the TOR remain the same and there were no changes from the CC and PCC. There are some minor amendments to the Operating Principles regarding tenure and recruitment of independent committee members however, further change may be required after the new CIPFA guidance has been published, which is anticipated for late September/ early October 2022. KJ advised that subject to the revised CIPFA guidance the next formal review will be in September 2023.

03/22/16 Verbal Update by Chief Constable/PCC Devon and Cornwall [FOIA – Open]

No update as the CC and PCC were unavailable to attend

03/22/17 Verbal Update by Chief Constable/PCC Dorset [FOIA – Open]

No update as the CC and PCC were unavailable to attend.

03/22/18 Feedback to Corporations Sole - additional item [FOIA – Open]

The key areas to bring to the attention of the Corporations Sole were agreed by the Committee.

There being no other business the meeting closed at 11:28

The next full IAC meeting is scheduled for Tuesday 13th December 2022 at 09:30 via Microsoft Teams

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Independent Audit Committee Decision and Action List
Open Actions

Action No	Minute Reference/Item Name	Date	Action Required	Owner	Due date	Remarks
250	04/21/19 Update on the Introduction of 'Sailpoint'	14/12/21	OM to update on the audits following implementation of Sailpoint at the next meeting in April 2022.	Oliver Marks	05/04/2022 28/06/2022 27/09/2022	Deferred to the next meeting on 28 June. Update 27/6/22: ICT are still working on 'Guest ' user access to Sailpoint. This will be the primary area of audit when implemented. Further work is also required to allow a more role based access approach. KJ presented a written update from OM which will be circulated to members. KJ reassured IAC PSD have had sufficient fraud mitigation training. Action to remain open as per mins 26/9/22
261	02/22/12 Annual Report on Fraud and Corruption Investigations	28/06/22	KJ to link in with the Economic Crime Unit and HR and draft a report /strategy to fill in the gap for fraud and theft.	Karen James	27/09/2022	A draft strategy has been produced and is shared for information and any feedback, pending formal Force consultation. Ongoing. KJ agreed to enquire about the level of fraud and corruption training provided to staff within the Professional Standards Department. - Update to be recieved.
262	03/22/05 Open Minute Items	27/09/22	An update on these specific risk management arrangements would be presented at the December 2022 meeting.	Teri Roberts/ Phil Rigg	13/12/2022	These details were discussed at a meeting of IAC members with KJ. Complete
263	03/22/09 Internal Audit Quarterly Update and Highlights	27/09/22	JG to arrage for the Audit plan to be placed on the IAC shared drive.	Jo George	13/12/2022	Completed.
264	03/22/10 Statement of Accounts for Devon and Cornwall	27/09/22	MB to provide timelines for responses to the Grant Thornton action plan	Mark Bartlett	13/12/2022	Alex Walling Response: If it is referring to when management will have put in place appropriate actions to address the IT issues on pages 271 and 272 of our AFR, it's probably for management to respond. We will follow up the recommendations made and look at action taken as part of our planning/ interim visit in 2023.
265	03/22/12 Annual Assurance Mapping Report	Annual Assurance Mapping Report	JG to create a separate assurance map for each force going forward.	Jo George	13/12/2022	Completed.
266	03/22/12 Annual Assurance Mapping Report	Annual Assurance Mapping Report	KJ/JG to arrange for the Fraud and Corruption report to be presented every 6 months.	Karen James/ Jo George	13/12/2022	Arranged and presented to the December IAC Meeting - Agenda Item 11 - Complete

Please note: from 27 July 2021 the action log will be unrestricted. The restricted action Log up to 27 July 2021 has been archived.

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AGENDA NO: 6a

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 13 December 2022

FOIA OPEN

TITLE OF REPORT: DEVON AND CORNWALL TREASURY MANAGEMENT, CAPITAL AND RESERVE STRATEGIES COVERING REPORT

REPORT BY: Nicola Allen, Chief Financial Officer to the OPCC

PURPOSE OF THE REPORT:
To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	**Yes**
Internal Audit	**-**
External Audit	**-**
Financial reporting	**-**
Other matter *(please specify here)*	**-**
Appendices (*please specify the number)*	**3**

RECOMMENDATIONS:
The Independent Audit Committee is asked to:

Review the Report	**Yes**
Consider the Report	**-**
Note the report	**-**
Other (please specify here)	**-**

1. BACKGROUND INFORMATION

1.1 This report sets out three 2023/24 draft strategies: Treasury Management Strategy, Capital Strategy and Reserves Strategy.

1.2 All three strategies are intrinsic to the annual Budget and Medium Term Financial Strategy which will be considered by the Police and Crime Panel on the 27 January 2023.

1.3 The Independent Audit Committee are asked to consider these strategies prior to the approval by the Police and Crime Commissioner (PCC).

2. TREASURY MANAGEMENT STRATEGY

2.1 The PCC has adopted the Chartered Institute of Public Finance and Accountancy's (CPIFA's) Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the PCC to approve a Treasury Management Strategy before the start of each financial year.

2.2 The PCC has also adopted the 2021 publication of the Prudential Code. This Code allowed authorities to defer introducing the revised reporting requirements until the 2023/24 financial year. The 2023/24 Treasury Management Strategy incorporates those changes.

2.3 The figures shown in the strategy are draft and will be updated once the budget figures have been finalised.

2.4 The draft 2023/24 Treasury Management Strategy is shown in Appendix 6c.

3. CAPITAL STRATEGY

3.1 The Prudential Code for Capital Finance in Local Authorities (*2021 Edition)* requires PCC to produce a capital strategy in order to help demonstrate that capital expenditure and investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability.

3.2 The 2021 publication of the Prudential Code allowed authorities to defer introducing the revised reporting requirements until the 2023/24 financial year. The 2023/24 Capital Strategy has undergone substantial revisions to ensure compliance with the Code.

3.3 The figures shown in the strategy are draft and will be updated once the budget figures have been finalised.

3.4 The draft 2023/24 Capital Strategy is shown in Appendix 6d.

4. RESERVES STRATEGY

4.1 The Chartered Institute of Public Finance and Accountancy's (CPIFA's) sets out guidance on establishing and maintaining reserves and balances. This guidance is a foundation for good financial management and has been adopted by the Police and Crime Commissioner (PCC).

4.2 The Reserves Strategy is reviewed annually and discloses each reserve held, its purpose and expected balances over the medium term.

4.3 The CIPFA guidance identifies that Revenue Reserves can be held for 3 main purposes:

- As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing (this forms part of general reserves);

- As a contingency to cushion the impact of unexpected events or emergencies (this also forms part of general reserves);

- As a means of building up funds to meet known or predicted requirements; these specific reserves are known as earmarked reserves and remain legally part of the total “General Fund”.

4.4 In addition, the PCC holds the following usable reserve:

- Capital Receipts Reserve – this reserve holds the proceeds from the sale of assets and can only be used for capital purposes (as specified in the capital finance and accounting regulations).

4.5 The Home Office issued specific **Police finance reserves guidance** on 31 January 2018, which is provided in the draft strategy.

4.6 There are some presentational changes in the Reserves Strategy.

4.7 The figures shown in the strategy are draft and will be updated once the budget figures have been finalised.

4.8 The draft 2023/24 Reserves Strategy is shown in Appendix 6e.

Nicola Allen
Chief Financial Officer to the OPCC

29/11/2022

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AGENDA NO: **6b**

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 13 DECEMBER 2022

FOIA OPEN

TITLE OF REPORT: DEVON AND CORNWALL 2022/23 TREASURY MANAGEMENT QUARTER 2 REPORT

REPORT BY: Nicola Allen, Chief Financial Officer to the OPCC

PURPOSE OF THE REPORT:
To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	**Yes**
Internal Audit	**-**
External Audit	**-**
Financial reporting	**Yes**
Other matter	**-**
Appendices (*please specify the number*)	**4**

RECOMMENDATIONS:
The Independent Audit Committee is asked to:

Review the Report	**Yes**
Consider the Report	**-**
Note the report	**-**
Other (please specify here)	**-**

1. INTRODUCTION

1.1 The Treasury Management Strategy for 2022/23 is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

1.2 The Code also recommends a report on treasury management activities at least twice a year; a mid-year, and a year-end (outturn) report, and both are reported to the Independent Audit Committee. This report sets out the performance of the treasury management function for the period from 1 April 2022 to 30 September 2022.

1.3 Treasury management is defined as:

"The management of the Police and Crime Commissioner's borrowing, investments and cash flows, including 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".

1.4 Operational treasury management activity is undertaken by the Alliance finance function, supported by the treasury advisors Arlingclose Limited, under the direction of the Chief Financial Officer (Treasurer), and in accordance with the strategy and practices approved by the Commissioner.

2. EXTERNAL CONTEXT

2.1 **Economic background:** The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions.

2.2 A fuller explanation of the external context, as provided by the treasury advisors, Arlingclose Limited, is provided in Appendix 4.

3. INVESTMENT ACTIVITY

3.1 On the 30 September 2022 the short-term investments and treasury cash equivalents total balance was £45.361mn. Year to date cash and cash equivalent balances ranged between £457k and £54.971mn. The period-end investment position and the year-to-date change is shown at Appendix 1 Table 2.

3.2 Both the CIPFA Code and government guidance require funds to be invested prudently with regard to security and liquidity of investments before seeking the highest rate of return, or yield. The objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

3.3 Investments are reviewed quarterly and benchmarked against other similar organisations by Arlingclose Limited. The quarter 2 benchmarking is provided at Appendix 1 Table 3. The internal investment return on the Devon and Cornwall balances was higher (2.17%) than the average return achieved by 9 other Police and Fire Authorities (1.67%).

3.4 The internal borrowing balance on the 30 September 2022 was £41.165mn.

3.5 You will also see that 34% of the funds are held in money market funds which have reasonable diversification and 57% of the funds are held with the Debt management Office which is a secure counterparty. This investment approach was in line with Arlingclose's advice during quarter 2.

4. BORROWING ACTIVITY

4.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

4.2 On the 30 September 2022 the forecast underlying need to borrow for capital purposes (CFR) was £75.358mn compared to the budget of £76.728mn.

4.3 **Short Term Borrowing:** On the 30 September 2022, no short-term borrowing was held.

4.4 **Long Term Borrowing:** No new long term external borrowing had been arranged in quarter 2. All existing borrowing was held with PWLB.

5. PERFORMANCE

5.1 The financial performance of treasury management activities is measured both in terms of its impact on the revenue budget and its relationship to benchmark interest rates. The Arlingclose benchmarking is provided at Appendix 1 Table 3.

5.2 Interest income forecast for the year to the 31 March 2023 is £856k compared to a budgeted amount of £13k. The interest income budget was developed in November 2021 and was based on an interest rate of 0.05%. The hike in interest rates since the budget was set has been reflected in our forecasts.

5.3 In line with the investment strategy, liquid investments were diversified over a variety of providers.

5.4 Interest paid from 1 April to 30 September 2022 was £681k with £1.357mn forecast to be spent by 31 March 2023 compared to a budgeted amount of £1.339mn. The budget includes an estimated interest cost associated with borrowing funds from external sources to fund the capital programme. This activity did not take place during the first six months of the year.

5.5 On the 30 September 2022, all treasury activity complied with the Commissioner's Treasury Management Strategy and Investment Strategy as well as all relevant statute, guidance and accounting standards. Within the quarter, there was one breach to the operational limit of £1.25mn. This breach was due to a national technical issue with the National Westminster Bank resulting in the Cornwall County Councils Precept payment crediting the bank account a day late. The closing operational balance on the day was (£3.403m).

Appendices
Appendix 1 – Investment Strategy
Appendix 2 – Treasury Management Indicators
Appendix 3 – Prudential Indicators
Appendix 4 – Economic Update provided by Arlingclose Ltd

INVESTMENT STRATEGY Appendix 1

Table 1: Investment Limits

Sector	Counterparty Limit	Sector Limit	30/09/2022
The UK Government	Unlimited	n/a	£26mn
Local Authorities and Other Government Entities	£6mn	Unlimited	£0mn
Secured Investments	£6mn	Unlimited	£0mn
Banks (unsecured)	£3mn	Unlimited	£3mn
Building Societies (unsecured)	£3mn	£6mn	£0mn
Registered Providers (unsecured)	£3mn	£6mn	£0mn
Money Market Funds (includes Cash Plus Funds)	£6mn	Unlimited	£15.550mn
Strategic Pooled Funds	£6mn	£11mn	£0mn
Operational Bank Account	£1.25mn	n/a	£0.811mn

Table 2: Investment Position

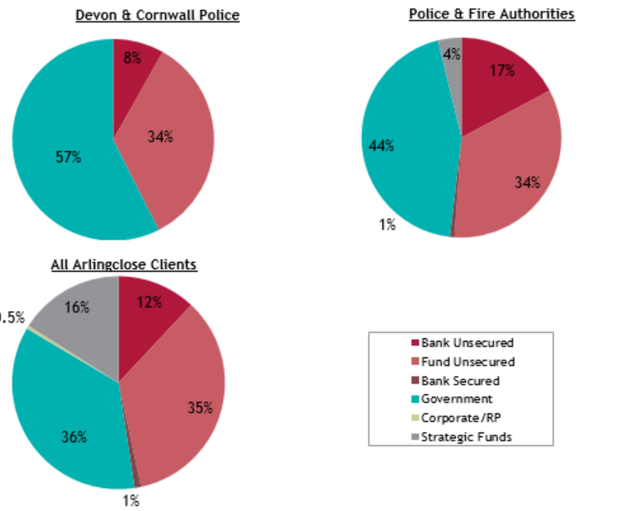
	31/03/2022 Actual Portfolio £'000	30/09/2022 Actual Portfolio £'000	Movement £'000
External Borrowing:			
Short Term Borrowing	(11,200)	0	11,200
Long Term Borrowing	(30,277)	(30,277)	0
Finance Leases	(63)	(35)	28
Total Gross External Debt	**(41,540)**	**(30,312)**	**11,228**
Treasury Investments:			
Short Term Investments	21,125	23,000	1,875
Cash and Cash Equivalents	6,724	22,361	15,637
Total Treasury Investments	**27,849**	**45,361**	**17,512**
Net Investments/(Debt)	**(13,691)**	**15,049**	**28,740**

INVESTMENT STRATEGY Appendix 1

Table 3: Benchmarking Information

Investment Benchmarking
30 September 2022

	Devon & Cornwall Police	9 Police & Fire Authorities Average	121 LAs Average
Internal Investments	£45.3m	£36.6m	£82.4m
Cash Plus & Short Bond Funds	£0.0m	£0.0m	£1.3m
Strategic Pooled Funds	£0.0m	£2.3m	£13.5m
TOTAL INVESTMENTS	**£45.3m**	**£38.9m**	**£97.1m**
Security			
Average Credit Score	3.46	3.90	4.29
Average Credit Rating	AA	AA-	AA-
Average Credit Score (time-weighted)	2.68	2.96	4.07
Average Credit Rating (time-weighted)	AA	AA	AA-
Number of Counterparties / Funds	7	10	13
Proportion Exposed to Bail-in	36%	52%	55%
Liquidity			
Proportion Available within 7 days	43%	53%	45%
Proportion Available within 100 days	67%	83%	71%
Average Days to Maturity	55	35	18
Market Risks			
Average Days to Next Rate Reset	67	45	46
Strategic Fund Volatility	-	2.2%	6.2%
Yield			
Internal Investment Return	2.17%	1.67%	1.72%
Cash Plus Funds - Income Return	-	-	0.63%
Strategic Funds - Income Return	-	4.29%	3.97%
Total Investments - Income Return	**2.17%**	**1.77%**	**2.06%**
Cash Plus Funds - Capital Gain/Loss	-	-	-2.53%
Strategic Funds - Capital Gain/Loss	-	2.78%	-1.33%
Total Investments - Total Return	**2.17%**	**1.83%**	**1.47%**



Notes

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.
- Volatility is the standard deviation of weekly total returns, annualised.

TREASURY MANAGEMENT INDICATORS Appendix 2

Table 4: Security

The Commissioner has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of the investment portfolio.

	2022/23	30/09/2022	Complied?
	Target	Actual	
Portfolio average credit rating	A+	AA	Yes

Table 5: Liquidity

The Commissioner has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected variation in the cash flow:

	2022/23	30/09/2022	Complied?
	Target	Actual	
Minimum limit at less than 31 days duration	£6mn	£16.361mn	Yes

The £16.361mn is mainly held with money markets which are very liquid in nature.

Table 6: Interest Rate Exposures

This indicator is set to control the Commissioner’s exposure to interest rate risk.

	2022/23	30/09/2022	Complied?
	Limit	Actual	
Upper limit on 1 year revenue impact of a 1% rise in interest rates	(£200k)	(£282k)	Yes
Upper limit on 1 year revenue impact of a 1% fall in interest rates	£200k	£282k	Yes

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

TREASURY MANAGEMENT INDICATORS Appendix 2

Table 7: Maturity Structure of Borrowing

This indicator is set to control the Commissioner's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	2022/23		30/09/2022	Complied?
	Upper Limit	Lower Limit	Actual	
Under 12 months	100%	0%	0%	Yes
12 months and within 24 months	55%	0%	0%	Yes
24 months and within 5 years	65%	0%	7%	Yes
5 years and within 10 years	80%	0%	29%	Yes
10 years and above	100%	0%	64%	Yes

Table 8: Principal Sums Invested for Periods Longer than 365 days

The purpose of this indicator is to control the exposure to the risk of incurring losses by seeking early repayment of investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Long term treasury management investments indicator	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Counterparty Limit on principal invested beyond year end	£6mn	£5.5mn	£5mn	£4.5mn
Actual Investment	£0mn	£0mn	£0mn	£0mn
Complied?	Yes	Yes	Yes	Yes

PRUDENTIAL INDICATORS Appendix 3

Table 9: Debt Limits

	2022/23	30/09/2022	Operational Boundary	Authorised Limit	
	Estimate	Actual			
	£'000	£'000	£'000	£'000	
External Borrowing	44,042	30,277	69,042	79,042	**Complied?**
Finance Leases	0	35			
Total	**44,042**	**30,312**	**69,042**	**79,042**	**Yes**

Table 10: Capital Financing Requirement (CFR)

	2022/23	30/09/2022	2022/23
	Estimate	Actual	Forecast
	£'000	£'000	£'000
Opening CFR	**68,575**	**69,541**	**69,541**
Capital expenditure to be funded by borrowing	10,426	3,072	8,090
Finance Leases	0	0	0
Less: Minimum Revenue Provision	(2,217)	(1,109)	(2,217)
Less: Finance Leases	(56)	(28)	(56)
Closing CFR	**76,728**	**71,476**	**75,358**

Table 11: Capital Expenditure and Financing

	2022/23	30/09/2022	2022/23
	Estimate	Actual	Forecast
	£'000	£'000	£'000
Capital Expenditure	23,160	6,319	22,382
Total Expenditure	**23,160**	**6,319**	**22,382**
Capital Grants	671	0	272
Capital Receipts	0	0	0
Earmarked Reserves	7,232	0	8,790
Revenue Contribution to Capital	4,831	3,247	5,230
Borrowing	10,426	3,072	8,090
Total Financing	**23,160**	**6,319**	**22,382**

ECONOMIC UPDATE provided by Arlingclose Ltd Appendix 4

Economic background: The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions.

UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.

The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and –2.8% for regular pay.

With disposable income squeezed and higher energy bills still to come, consumer confidence fell to a record low of –44 in August, down –41 in the previous month. Quarterly GDP fell -0.1% in the April-June quarter driven by a decline in services output, but slightly better than the 0.3% fall expected by the Bank of England.

The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. the September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

On 23rd September the UK government, following a change of leadership, announced a raft of measures in a 'mini budget', loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.

Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

After hitting 9.1% in June, annual US inflation eased in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a 0.5% hike in May followed by three increases of 0.75% in June, July and September, taking policy rates to a range of 3% - 3.25%.

Eurozone CPI inflation reached 9.1% y/y in August, with energy prices the main contributor but also strong upward pressure from food prices. Inflation has increased steadily since April from 7.4%. In July the European Central Bank increased interest rates for the first time since 2011, pushing its deposit rate from –0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September by further hikes of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%.

Financial markets: Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.

Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The Sterling Overnight Rate (SONIA) averaged 1.22% over the period.

ECONOMIC UPDATE provided by Arlingclose Ltd Appendix 4

Credit review: In July Fitch revised the outlook on Standard Chartered from negative to stable as it expected profitability to improve thanks to the higher interest rate environment. Fitch also revised the outlook for Bank of Nova Scotia from negative to stable due to its robust business profile.

Also in July, Moody's revised the outlook on Bayerische Landesbank to positive and then in September S&P revised the GLA outlook to stable from negative as it expects the authority to remain resilient despite pressures from a weaker macroeconomic outlook coupled with higher inflation and interest rates.

Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.

Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

<u>Arlingclose's Economic Outlook for the remainder of 2022/23 (based on 26th September 2022 interest rate forecast)</u>

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.25	4.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.75	4.25	3.75	3.25
Downside risk	0.00	-1.00	-1.00	-0.75	-0.50	-0.50	-0.50	-0.75	-1.25	-1.50	-1.75	-1.75	-1.75

Arlingclose expects Bank Rate to rise further during 2022/23 to reach 5% by the end of the year.

The MPC is particularly concerned about the demand implications of fiscal loosening, the tight labour market, sterling weakness and the willingness of firms to raise prices and wages.

The MPC may therefore raise Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose now expects Bank Rate to peak at 5.0%, with 200bps of increases this calendar year.

This action by the MPC will slow the economy, necessitating cuts in Bank Rate later in 2024.

Gilt yields will face further upward pressure in the short term due to lower confidence in UK fiscal policy, higher inflation expectations and asset sales by the BoE. Given the recent sharp rises in gilt yields, the risks are now broadly balanced to either side. Over the longer term, gilt yields are forecast to fall slightly over the forecast period.

Background: Monetary policymakers are behind the curve having only raising rates by 50bps in September. This was before the "Mini-Budget", poorly received by the markets, triggered a rout in gilts with a huge spike in yields and a further fall in sterling. In a shift from recent trends, the focus now is perceived to be on supporting sterling whilst also focusing on subduing high inflation.

There is now an increased possibility of a special Bank of England MPC meeting to raise rates to support the currency. Followed by a more forceful stance over concerns on the looser fiscal outlook. The MPC is therefore likely to raise Bank Rate higher than would otherwise have been necessary given already declining demand. A prolonged economic downturn could ensue.

Uncertainty on the path of interest rates has increased dramatically due to the possible risk from unknowns which could include for instance another Conservative leadership contest, a general election, or further tax changes including implementing windfall taxes.

The government's blank cheque approach to energy price caps, combined with international energy markets priced in dollars, presents a fiscal mismatch that has contributed to significant decline in sterling and sharp rises in gilt yields which will feed through to consumers' loans and mortgages and business funding costs.

UK government policy has mitigated some of the expected rise in energy inflation for households and businesses flattening the peak for CPI, whilst extending the duration of elevated CPI. Continued currency weakness could add inflationary pressure.

The UK economy already appears to be in recession, with business activity and household spending falling. The short- to medium-term outlook for the UK economy is relatively bleak.

Global bond yields have jumped as investors focus on higher and stickier US policy rates. The rise in UK government bond yields has been sharper, due to both an apparent decline in investor confidence and a rise in interest rate expectations, following the UK government's shift to borrow to loosen fiscal policy. Gilt yields will remain higher unless the government's plans are perceived to be fiscally responsible.

The housing market impact of increases in the Base Rate could act as a "circuit breaker" which stops rates rising much beyond 5.0%, but this remains an uncertainty.

28/11/2022

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Agenda Item 6c

POLICE AND CRIME COMMISSIONER FOR DEVON AND CORNWALL

TREASURY MANAGEMENT STRATEGY 2023/24 to 2026/27

POLICE AND CRIME COMMISSIONER FOR DEVON AND CORNWALL
2023/24 to 2026/27 TREASURY MANAGEMENT STRATEGY STATEMENT

1.0 Introduction

1.1 This is the Treasury Management Strategy Statement for the Police and Crime Commissioner for Devon and Cornwall.

1.2 The Commissioner has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Commissioner to approve a Treasury Management Strategy before the start of each financial year.

1.3 In addition, this strategy also complies with elements of the Local Government Act 2003, the CIPFA Prudential Code, the Ministry of Housing, Communities and Local Government (MHCLG) MRP Guidance and MHCLG Investment Guidance.

1.4 This report fulfils the Commissioner's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance.

1.5 Treasury Management is the management of the Commissioner's cash flows, borrowing and investments, and the associated risks. **The Commissioner funds are exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates as well as ensuring that revenue cash flow is adequately planned and funding is available to meet capital expenditure plans.** The successful identification, monitoring and control of financial risk are therefore central to the Commissioner's prudent financial management.

1.6 In accordance with the MHCLG Guidance, the Commissioner will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change: in interest rates; in the Commissioner's capital programme; or in the level of its investment balances.

1.7 The Treasury Management Strategy is integral to the Medium Term Financial Strategy (MTFS) and this document should be read in conjunction with the report on the MTFS for 2023/24 to 2026/27.

1.8 This Strategy includes the Borrowing Strategy, the Investment Strategy and Prudential Indicators.

2.0 Treasury Management Strategy

2.1 On 31 March 2022 the Commissioner held treasury investments totalling £27.849mn and £41.540mn external debt.

2.2 This is set out in further detail in Appendix 1 Table 1. Forecast changes in these sums are shown in the balance sheet analysis in Appendix 1 Table 2.

2.3 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Commissioner's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

2.4 Over the forecast period CFR will decrease by the amounts reflecting the reduction in the existing liabilities (e.g. minimum revenue provision) and will increase by any new unfinanced capital expenditure.

2.5 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the total debt should be lower than its highest forecast CFR over the next three years. Appendix 2 Table 9 shows that the Commissioner expects to comply with this recommendation during 2023/24.

2.6 The economic background, credit outlook and interest rate forecasts, provided by Arlingclose, is shown at Appendix 5.

2.7 Investment interest rates have been very volatile in 2022/23. Arlingclose Limited forecast the bank rate to reach 4.25% by March 2024. Taking into account this forecast and the time lag between bank base rate and money market rates, a budget of £1.443mn has been set for 2023/24. For new borrowing the rate range (November 2022) is 2.85% to 4.73% depending on the term and source of the loan.

2.8 **Liability benchmark**: To compare the Commissioner's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This benchmark is the minimum amount of debt that the Commissioner would hold if internal borrowing was used up to the maximum level possible (i.e. using all reserves and cashflow surpluses). The Commissioner's liability benchmark is shown at Appendix 1 Table 3. This assumes the same forecasts as Appendix 1 Table 2, but that cash and investment balances are kept to a minimum level of £10mn at each year-end to maintain sufficient liquidity but minimise credit risk.

2.9 The liability benchmark is an important tool to help establish whether the Commissioner is likely to be a long-term borrower or long-term investor in the future, and so shapes the strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Commissioner must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

2.10 Following on from the medium-term forecasts in Appendix 1 Table 3, the long-term liability benchmark assumes capital expenditure funded by external and internal borrowing; and minimum revenue provision on new capital expenditure based on various years depending on the type of asset.

2.11 In Appendix 1 Table 4, forecasts for CFR, net loans requirement and liability benchmark are shown against actual borrowing for 10 years.

2.12 The liability benchmark shows that there is a borrowing requirement from 2023/24 over the MTFS.

3.0 Borrowing Strategy

3.1 As at the 31 March 2022, the Commissioner held long term borrowing of £30.277mn with PWLB, £11.200mn short term borrowing with Local Authorities and finance leases of £0.063mn. The balance sheet forecast in Appendix 1 Table 2 shows that the PCC expects to borrow up to £82.185mn in 2023/24. The Commissioner may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing which is shown in Appendix 2 Table 11.

3.2 **Objectives:** The chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Commissioner's long-term plans change is a secondary objective.

3.3 **Strategy:** Given the significant cuts in funding, the Commissioner's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Commissioner is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal or short term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Treasurer with this 'cost of carry' and breakeven analysis. Its output may determine whether the Commissioner borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Commissioner will consider PWLB as a source of borrowing as well as other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. The PWLB lending terms have been revised so that loans are no longer available to authorities that plan on buying investment assets primarily for yield. The Commissioner has no intention of undertaking this type of activity and so the access to PWLB loans is retained.

Alternatively, the Commissioner may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Commissioner may borrow short-term loans to cover temporary cash flow shortages.

3.4 **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Devon and Cornwall Police Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Commissioner will only borrow from organisations that have signed up to the Modern Slavery Statement.

3.5 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the Commissioner.

3.6 **Short-term and variable rate loans**: These loans leave the Commissioner exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk.

3.7 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Commissioner may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

4.0 Investment Strategy

4.1 The Commissioner holds invested funds, representing income received in advance of expenditure plus balances and reserves held. This activity, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with the CIPFA guidance. In the first 7 months of 2022/23, the Commissioner's investment balance has ranged between £0.457mn and £54.971mn. These levels may reduce in the forthcoming year.

4.2 **Objectives:** The CIPFA Code and the MHCLG Guidance requires the Commissioner to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Commissioner's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Commissioner will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The PCC aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

4.3 **Strategy:** As demonstrated by the liability benchmark above, the PCC expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments.

The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Commissioner may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by diversifying.

4.4 **Environmental, social and governance (ESG):** considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Commissioner's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level.

4.5 **Business Model:** Under the IFRS 9 Financial Instruments standard, the accounting for certain investments depends on the Commissioner's approach to managing them. The Commissioner aims to realise value from its internally managed treasury investments and uses two business models to achieve this. One collects contractual cashflows e.g. a bank notice account and the other covers non-contractual investments such as pooled funds which include money market funds. The accounting treatment is different for each model with an unusable reserve used to recognise fair value gains and losses for the latter model.

4.6 **Approved counterparties:** The Commissioner may invest its surplus funds with any of the counterparty types shown in Appendix 1 Table 5, subject to the cash and time limits. The Commissioner will invest with counterparties recommended by Arlingclose and those that meet the required criteria outlined in this strategy.

4.7 **Minimum credit rating:** Treasury investments in the sectors marked with an asterisk in Table 5 will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made only where external advice indicates the entity to be of similar credit quality.

4.8 **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

4.9 **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

4.10 **Government:** Loans to, bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

4.11 **Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department of Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

4.12 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Commissioner will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

4.13 **Strategic pooled funds:** Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Commissioner to diversify into asset classes other than cash without the need to own and manage the underlying investments. As these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Commissioner's investment objectives will be monitored regularly. Any such investment would require the explicit approval of the Commissioner.

4.14 **Operational bank accounts:** The Commissioner may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, therefore where the credit rating falls below A- balances will be kept below £1.250mn, otherwise the standard counterparty limit will apply, except for:

(i) When the only investment option available incurs a negative interest rate then excess funds will be left in the bank account unless:

- The total amount remaining in the bank exceeds £6mn in line with the cash limit for investment to a single organisation,
- Or the bank account interest rate falls below 0% or the investment rate pertaining to the investment.

(ii) Where unscheduled income is received after the counterparty investment cut off times, the balance may exceed £1.250mn. The Treasury team will advise the Treasurer accordingly and ensure that the balance is brought back down to below £1.250mn the next working day.

The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Commissioner maintaining operational continuity.

4.15 **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Commissioner's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

4.16 **Other information on the security of investments**: The Commissioner understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the Commissioner's treasury management advisor. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Commissioner will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Commissioner's cash balances, then the surplus will be deposited with the UK Government or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

4.17 **Investment limits**: The Commissioner's revenue reserves available to cover investment losses are forecast to be £51.740mn on 31 March 2023. The maximum that will be lent to any one organisation (other than the UK Government) is set out in Appendix 1 Table 5. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts and foreign countries. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries. Investment limits are shown in Appendix 1 Table 6.

4.18 **Liquidity management**: The Commissioner uses a purpose-built cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Commissioner being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Commissioner's medium term financial plan and cash flow forecast.

The Commissioner will spread its liquid cash over at least four providers to ensure that access to cash is maintained in the event of operational difficulties of any one provider.

4.19 Commercial Investments – Property: Three properties were classed as investment properties as at 31 March 2022. When these properties were purchased, they were used mainly for operational purposes. Operational requirements changed over the years and the properties are rented by local organisations. The net book value of these properties was £574k as at 31 March 2022 with an annual net income of £29k. The Commissioner has assessed the loss of the income arising from holding these properties as low risk and if realised, the amount would be covered by the General Fund Balance reserve. The holding of these properties is a direct consequence of changes in use that have occurred rather than an investment decision targeted at achieving a return. The continued holding of these properties will be reviewed at an appropriate time.

5.0 <u>2018 MHCLG Investment Guidance</u>

5.1 The contribution that Treasury Management Investments make to the objectives of the Commissioner is to support effective treasury management activities.

5.2 The statutory guidance issued by MHCLG in January 2018 requires authorities to report also on their investment strategy with regard to the following purposes:

- To support local public services by lending to or buying shares in other organisations (service investments), and
- To earn investment income (known as commercial investments where this is the main purpose)

5.3 The Commissioner does not have any current plans for any new service or commercial investments. Should these plans change in the future a full assessment will be made and an appropriate Investment Strategy Report will be prepared.

5.4 Financial guarantees are not strictly counted as investments, since no money has exchanged hands yet, but they do carry risks. The Commissioner provides two financial guarantees: one for the Police ICT company amounting to £124k and another to the APCC pension fund held by Merseyside LGPS amounting to £21k. This would be covered within the General Fund Balance reserve.

6.0 Prudential Code Indicators

6.1 The Local Government Act 2003 requires the Commissioner to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of the Commissioner are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Commissioner has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

(i) **Estimates of Capital Expenditure:** The Commissioner's planned capital expenditure and financing is shown in Table 7 in Appendix 2 as well as the **estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) (Table 8 in Appendix 2) measures the Commissioner's underlying need to borrow for a capital purpose.

(ii) **Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the Commissioner should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence which is shown in Appendix 2 Table 9.

(iii) **Operational Boundary for External Debt:** The operational boundary shown in Appendix 2 Table 10 is based on the Commissioner's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Commissioner's estimates of capital expenditure, the capital financing requirement, finance leases and cash flow requirements, and is a key management tool for in-year monitoring.

(iv) **Authorised Limit for External Debt:** The authorised limit shown in Appendix 2 Table 11 is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Commissioner can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

(v) **Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. This is shown in Appendix 2 Table 12.

7.0 Treasury Management Code Indicators

7.1 The Commissioner measures and manages its exposures to treasury management risks using the following indicators.

7.2 **Security:** The Commissioner has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	**Target**
Portfolio average credit rating	A+

7.3 **Liquidity:** Minimum limits are set for short term cash in order that sufficient liquidity is available to meet unexpected variation in the cash flow:

Liquidity risk indicator	**Target**
Minimum limit at less than 31 days duration	£6mn

7.4 **Interest rate exposures**: This indicator is set to control the Commissioner’s exposure to interest rate risk. The upper limits on the one year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Limit**
Upper limit on 1 year revenue impact of a 1% rise in interest rates	(£650k)
Upper limit on 1 year revenue impact of a 1% fall in interest rates	£650k

The impact of a change to the variable interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

It should be noted that all loan arrangements in place and those forecast have fixed interest rates and have been excluded from the calculations.

7.5 **Maturity structure of borrowing:** This indicator is set to control the Commissioner's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Refinancing rate risk indicator	Upper Limit	Lower Limit
Under 12 months	100%	0%
12 months and within 24 months	55%	0%
24 months and within 5 years	65%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

7.6 **Long-term treasury management investments:** The purpose of this indicator is to control the Commissioner's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term principal sum invested to final maturities beyond the period end will be:

Long term treasury management investments indicator	2022/23	2023/24	2024/25	No Fixed Date
Counterparty Limit on principal invested beyond year end	£6mn	£5.5mn	£5mn	£4.5mn

8.0 Other Items

8.1 The CIPFA Code requires the Commissioner to include the following in its Treasury Management Strategy.

8.2 **Financial derivatives:** In the absence of any explicit legal power to do so, the Commissioner will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

8.3 **Investment training:** The needs of the Commissioner's treasury management staff for training in investment management are assessed on an ongoing basis and as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff attend internal training courses and/or training courses, seminars and conferences provided by Arlingclose and CIPFA.

8.4 **Investment advisers:** The Commissioner has appointed Arlingclose Limited as treasury management advisers and receive specific advice on investment, debt and capital finance issues.

8.5 **Investment of money borrowed in advance of need**: The Commissioner may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Commissioner is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Commissioner's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be three years, although the Commissioner is not required to link particular loans with particular items of expenditure.

8.6 The Minimum Revenue Provision (MRP) Policy Statement is shown in Appendix 4. MRP is an amount charged to the revenue budget for the repayment of debt. The Local Government Act 2003 requires the Commissioner to have regard to the MHCLG Guidance on Minimum Revenue Provision most recently issued in 2018.

9.0 Financial Implications

9.1 The budget for investment income in 2023/24 is £1.443mnk, based on an average investment portfolio of £40mn at an average interest rate of 3.5%. The budget for debt interest payable in 2023/24 is £1.273mn. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

10.0 Other Options Considered

10.1 The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Treasurer, having consulted the Commissioner believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are considered below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of	Interest income will be	Increased risk of losses

counterparties and/or for longer times	higher	from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

11.0 Governance Arrangements

11.1 The Treasury Management governance arrangements are set out in Appendix 6.

Appendices

Appendix 1: Investment Strategy
Appendix 2: Prudential Indicators
Appendix 3: Budgets
Appendix 4: Minimum Revenue Provision Statement
Appendix 5: Economic Context
Appendix 6: Governance
Appendix 7: Glossary

INVESTMENT STRATEGY **Appendix 1**

Table 1: Existing Investment and Debt Portfolio Position

Actual Portfolio as at 31/03/2022	
	£'000
External Borrowing:	
Short-term borrowing	(11,200)
Long-term borrowing	(30,277)
Total External Borrowing	(41,477)
Finance Leases	
Finance lease liabilities	(63)
Total Finance Leases	(63)
Total Gross External Debt	**(41,540)**
Treasury Investments:	
Short-term investments	21,125
Cash and cash equivalents	6,724
Total Treasury Investments	**27,849**
Net Debt	**(13,691)**

Table 2: Balance Sheet Summary and Forecast

	31/03/2022	**31/03/2023**	**31/03/2024**	**31/03/2025**	**31/03/2026**	**31/03/2027**
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Total Capital Financing Requirement	**69,541**	**75,320**	**82,185**	**87,887**	**87,641**	**96,220**
Less: External Borrowing for Capital	(30,277)	(38,367)	(47,370)	(56,000)	(59,000)	(71,126)
Less: Finance Leases	(63)	(7)	(214)	(142)	(70)	0
Internal Borrowing	**39,201**	**36,946**	**34,601**	**31,745**	**28,571**	**25,094**
Adjust for: Balance Sheet Resources						
Usable Reserves	(58,703)	(52,583)	(42,298)	(39,313)	(38,319)	(38,326)
Short Term Borrowing	(11,200)	0	0	0	0	0
Working Capital	2,853	2,883	2,898	2,813	2,819	2,926
Total Funds	**(67,050)**	**(49,700)**	**(39,400)**	**(36,500)**	**(35,500)**	**(35,400)**
New borrowing or (Treasury investments)	**(27,849)**	**(12,754)**	**(4,799)**	**(4,755)**	**(6,929)**	**(10,306)**

INVESTMENT STRATEGY **Appendix 1**

Table 3: Liability Benchmark

	31/03/2022	31/03/2023	31/03/2024	31/03/2025	31/03/2026	31/03/2027
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Total Capital Financing Requirement	**69,541**	**75,320**	**82,185**	**87,887**	**87,641**	**96,220**
Less: Finance Leases	(63)	(7)	(214)	(142)	(70)	0
Less: Short Term Borrowing for Cashflow	(11,200)	0	0	0	0	0
Less: Existing External Borrowing	(30,277)	(30,277)	(30,277)	(30,277)	(28,277)	(28,277)
Borrowing	**28,001**	**45,036**	**51,694**	**57,468**	**59,294**	**67,943**
Less: Balance Sheet Resources	(55,850)	(49,700)	(39,400)	(36,500)	(35,500)	(35,400)
(Investments)/Borrowing	**(27,849)**	**(4,664)**	**12,294**	**20,968**	**23,794**	**32,543**

(Investments)/Borrowing	**(27,849)**	**(4,664)**	**12,294**	**20,968**	**23,794**	**32,543**
Plus: Liquidity Allowance	27,849	10,000	10,000	10,000	10,000	10,300
Total Borrowing Requirement	**0**	**5,336**	**22,294**	**30,968**	**33,794**	**42,843**

Net Loans Requirement (Investment less External Borrowing)	2,428	25,613	42,571	51,245	52,071	60,820
Plus: Liquidity Allowance	10,000	10,000	10,000	10,000	10,000	10,300
Liability Benchmark	**12,428**	**35,613**	**52,571**	**61,245**	**62,071**	**71,120**

Table 4:

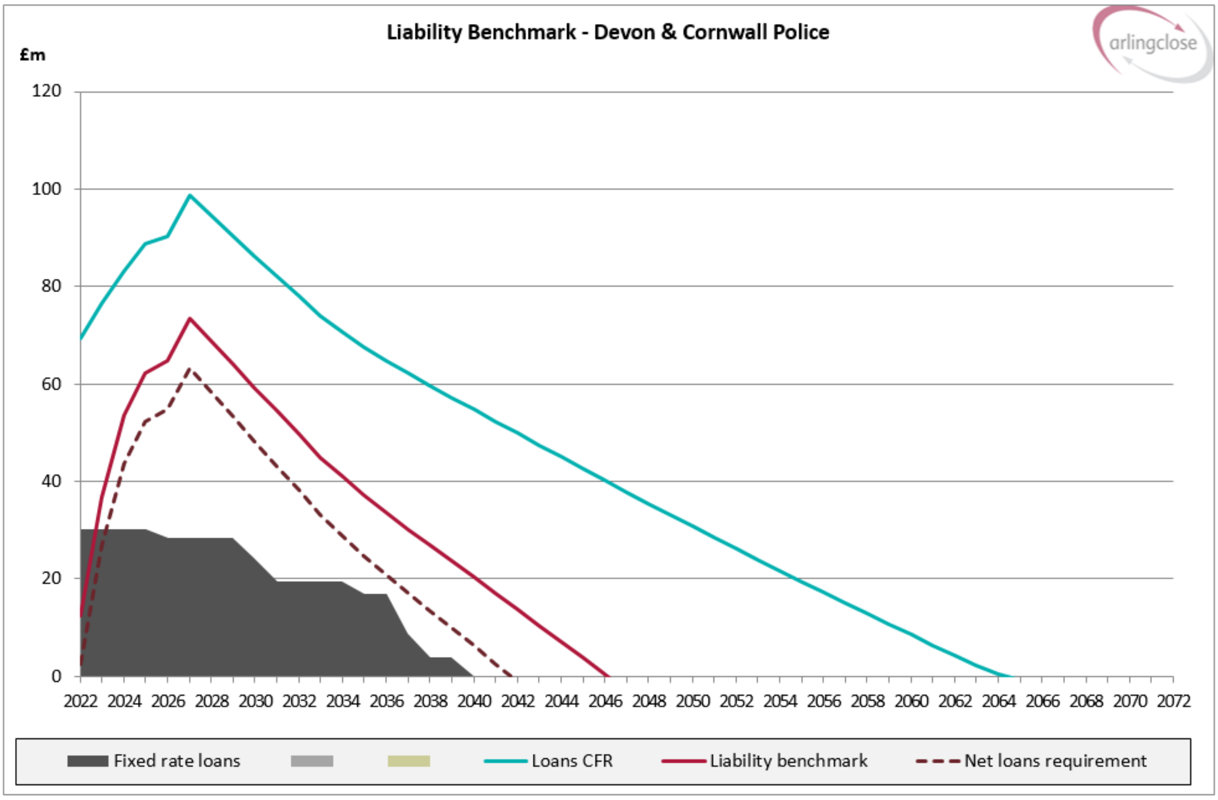

Table 5: Treasury Investment Counterparties and Limits

Sector	Time Limit	Counterparty Limit	Sector Limit
The UK Government	3 years	Unlimited	n/a
Local Authorities and Other Government Entities	3 years	£6mn	Unlimited
Secured Investments*	3 years	£6mn	Unlimited
Banks (unsecured)*	13 months	£3mn	Unlimited
Building Societies (unsecured)*	13 months	£3mn	£6mn
Registered Providers (unsecured)*	3 years	£3mn	£6mn
Money Market Funds (includes Cash Plus Funds)*	n/a	£6mn	Unlimited
Strategic Pooled Funds**	n/a	£6mn	£11mn

*Please refer to the section on minimum credit rating.

**This sector limit is in line with the minimum level of reserves.

Table 6: Additional Investment Limits

	Cash Limit
Any group of Strategic Pooled Funds under the same management	£6mn per manager
Negotiable instruments held in a broker's nominee account	£15mn per broker
Foreign countries	£6mn per country

PRUDENTIAL INDICATORS **Appendix 2**

Table 7: Estimates of Capital Expenditure

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Total Expenditure	**11,430**	**22,382**	**20,430**	**18,395**	**13,032**	**18,959**
Capital Grants	941	272	163	54	0	0
Capital Receipts	0	0	103	845	0	0
Earmarked Reserves	852	8,790	6,727	3,737	1,863	200
Revenue Contribution to Capital	5,241	5,230	4,434	5,129	6,169	6,633
Borrowing	4,396	8,090	9,003	8,630	5,000	12,126
Total Financing	**11,430**	**22,382**	**20,430**	**18,395**	**13,032**	**18,959**

Table 8: Estimates of Capital Financing Requirement

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Opening CFR	**67,477**	**69,541**	**75,320**	**82,185**	**87,887**	**87,641**
Capital expenditure to be funded by borrowing	4,395	8,090	9,003	8,630	5,000	12,126
Finance Leases	0	0	279	0	0	0
Less: Minimum Revenue Provision	(2,271)	(2,255)	(2,345)	(2,856)	(3,174)	(3,477)
Less: External Borrowing Repayment	0	0	0	0	(2,000)	0
Less: Finance Leases Repayment	(60)	(56)	(72)	(72)	(72)	(70)
Closing CFR	**69,541**	**75,320**	**82,185**	**87,887**	**87,641**	**96,220**

PRUDENTIAL INDICATORS **Appendix 2**

Table 9: Gross Debt and the Capital Financing Requirement

	2021/22 Actual £'000	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
External Borrowing	30,277	38,367	47,370	56,000	59,000	71,126
Finance Leases	63	7	214	142	70	0
Gross Debt	**30,340**	**38,374**	**47,584**	**56,142**	**59,070**	**71,126**
Internal Borrowing	39,201	36,946	34,601	31,745	28,571	25,094
Capital Financing Requirement	**69,541**	**75,320**	**82,185**	**87,887**	**87,641**	**96,220**

Table 10: Operational Boundary for External Debt

Operational Boundary	2021/22 Actual £'000	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
External Borrowing	30,277	38,367	47,370	56,000	59,000	71,126
Finance Leases	63	7	214	142	70	0
Maximum forecast cashflow deficit arising from revenue budget operations	20,000	25,000	25,000	25,000	25,000	25,000
Total Operational Boundary	**50,340**	**63,374**	**72,584**	**81,142**	**84,070**	**96,126**

Table 11: Authorised Limit for External Debt

Authorised Limit	2021/22 Actual £'000	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Total Operational Boundary Debt	50,340	63,374	72,584	81,142	84,070	96,126
Additional margin for unforeseen circumstances/capital receipt	10,000	10,000	10,000	10,000	10,000	10,000
Total Authorised Limit	**60,340**	**73,374**	**82,584**	**91,142**	**94,070**	**106,126**

PRUDENTIAL INDICATORS **Appendix 2**

Table 12: Ratio of Financing Costs to Net Revenue Stream

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
Ratio of Financing Costs to Net Revenue Stream	1.01%	0.97%	1.02%	1.22%	1.37%	1.48%

BUDGET **Appendix 3**

Table 13: Budget

	2022/23 Budget £'000
Interest Income	(1,443)
Interest Payments	1,273

MINIMUM REVENUE PROVISION **Appendix 4**

Annual Minimum Revenue Provision Statement 2023/24

Where the Commissioner finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Commissioner to have regard to the former Ministry of Housing, Communities and Local Government's (MHCLG) Guidance on Minimum Revenue Provision most recently issued in 2018. The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits.

The MHCLG Guidance requires the Commissioner to approve an Annual MRP Statement each year, and provides four options for calculating an amount to put aside to revenue over time to cover the CFR i.e. the MRP. The Commissioner has opted for option 3; the Asset Life Method. The Asset Life Method determines that MRP is calculated on the basis of charging the unfinanced capital expenditure over the expected useful life of the relevant assets based on either an equal instalment method or an annuity method. The Commissioner has opted for the equal instalment method. This method will be reviewed to ensure its continued suitability. This is applied from the year after the asset becomes operational. For assets acquired by finance leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

The Commissioner can choose to make more MRP than considered the prudent minimum. The maximum asset life used in MRP calculations is 50 years, unless a longer life is certified by an appropriately qualified professional adviser, or the asset has been acquired on a lease of longer than 50 years. For those assets purchased before 1st April 2018 that have an asset life of more than 50 years, the Code does not require a retrospective adjustment.

Based on the Commissioner's latest estimate of its Capital Financing Requirement on 31 March 2023, the budget for MRP has been set as follows:

	2023/24 Estimated CFR	2023/24 Estimated MRP
	£'000	£'000
Unsupported capital expenditure after 31.03.2008	82,185	2,345

ECONOMIC CONTEXT **Appendix 5**

Arlingclose Economic Context as of November 2022

Economic background: The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the treasury management strategy for 2023/24.

The Bank of England (BoE) increased Bank Rate by 0.75% to 3.0% in November 2022, the largest single rate hike since 1989 and the eighth successive rise since December 2021. The decision was voted for by a 7-2 majority of the Monetary Policy Committee (MPC), with one of the two dissenters voting for a 0.50% rise and the other for just a 0.25% rise.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

The UK economy grew by 0.2% between April and June 2022, but the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

CPI inflation is expected to peak at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets with a peak of 5.25%. However, the BoE has stated it considers this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target.

The labour market remains tight for now, with the most recent statistics showing the unemployment rate fell to 3.5%, driven mostly by a shrinking labour force. Earnings were up strongly in nominal terms by 6% for total pay and 5.4% for regular pay but factoring in inflation means real total pay was -2.4% and regular pay -2.9%. Looking forward, the MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.75% in November 2022 to 3.75%-4.0%. This was the fourth successive 0.75% rise in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 8%. GDP grew at an annualised rate of 2.6% between July and September 2022, a better-than-expected rise, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

Inflation has been rising consistently in the Euro Zone since the start of the year, hitting an annual rate of 10.7% in October 2022. Economic growth has been weakening with an expansion of just 0.2% in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.75% in October, the third major increase in a row, taking its main refinancing rate to 2% and deposit facility rate to 1.5%.

Credit outlook:

Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic. CDS price volatility has been higher in 2022 compared to 2021 and this year has seen a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

However, the institutions on the Arlingclose's counterparty list remain well-capitalised and the counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast:

The Commissioner's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession.

ECONOMIC CONTEXT **Appendix 5**

Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.6%, 3.7%, and 3.9% respectively over the 3-year period to September 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Underlying assumptions:

- UK interest rate expectations have eased following the mini-budget, with a growing expectation that UK fiscal policy will now be tightened to restore investor confidence, adding to the pressure on household finances. The peak for UK interest rates will therefore be lower, although the path for interest rates and gilt yields remains highly uncertain.
- Globally, economic growth is slowing as inflation and tighter monetary policy depress activity. Inflation, however, continues to run hot, raising expectations that policymakers, particularly in the US, will err on the side of caution, continue to increase rates and tighten economies into recession.
- The new Chancellor dismantled the mini-budget, calming bond markets and broadly removing the premium evident since the first Tory leadership election. Support for retail energy bills will be less generous, causing a lower but more prolonged peak in inflation. This will have ramifications for both growth and inflation expectations.
- The UK economy is already experiencing recessionary conditions, with business activity and household spending falling. Tighter monetary and fiscal policy, alongside high inflation will bear down on household disposable income. The short- to medium-term outlook for the UK economy is bleak, with the BoE projecting a protracted recession.
- Demand for labour remains strong, although there are some signs of easing. The decline in the active workforce has fed through into higher wage growth, which could prolong higher inflation. The development of the UK labour market will be a key influence on MPC decisions. It is difficult to see labour market strength remaining given the current economic outlook.
- Global bond yields have steadied somewhat as attention turns towards a possible turning point in US monetary policy. Stubborn US inflation and strong labour markets mean that the Federal Reserve remains hawkish, creating inflationary risks for other central banks breaking ranks.
- However, in a departure from Fed and ECB policy, in November the BoE attempted to explicitly talk down interest rate expectations, underlining the damage current

market expectations will do to the UK economy, and the probable resulting inflation undershoot in the medium term. This did not stop the Governor affirming that there will be further rises in Bank Rate.

Forecast:

- The MPC remains concerned about inflation but sees the path for Bank Rate to be below that priced into markets.
- Following the exceptional 75bp rise in November, Arlingclose believes the MPC will slow the rate of increase at the next few meetings. Arlingclose now expects Bank Rate to peak at 4.25%, with a further 50bp rise in December and smaller rises in 2023.
- The UK economy likely entered into recession in Q3, which will continue for some time. Once inflation has fallen from the peak, the MPC will cut Bank Rate.
- Arlingclose expects gilt yields to remain broadly steady despite the MPC's attempt to push down on interest rate expectations. Without a weakening in the inflation outlook, investors will price in higher inflation expectations given signs of a softer monetary policy stance.
- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales will maintain yields at a higher level than would otherwise be the case.

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.90	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.75	3.75	3.75
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.36	3.65	3.90	3.90	3.90	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.70	3.75	3.75	3.75	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.88	4.00	4.00	4.00	4.00	4.00	3.90	3.90	3.90	3.90	3.90	3.90	3.90
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.24	3.40	3.40	3.40	3.40	3.40	3.30	3.30	3.30	3.30	3.30	3.30	3.30
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

ECONOMIC CONTEXT **Appendix 5**

GOVERNANCE **Appendix 6**

Treasury Management Governance Arrangements

The Commissioner is responsible for:

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.
- approval of/amendments to the treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

The Independent Audit Committee is responsible for:

- scrutinising the treasury management policy and procedures and making recommendations to the Commissioner.

The Treasurer is responsible for:

- 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.

GLOSSARY **Appendix 7**

Annuity	A method of repaying a loan where the cash payment remains constant over the life of the loan, but the proportion of interest reduces and the proportion of principal repayment increases over time. Repayment mortgages and personal loans tend to be repaid by the annuity method.
Authorised limit	The maximum amount of *debt* that a local authority may legally hold, set annually in advance by the authority itself. One of the *Prudential Indicators*.
Bail-in	A method of rescuing a failing *financial institution* by cancelling some of its *deposits* and *bonds*. Investors may suffer a *haircut* but may be given *shares* in the bank as part compensation.
Bank	Regulated firm that provides financial services to customers. But see also *Bank of England*.
Bank of England	The *central bank* of the UK, based in London, sometimes just called "the Bank". See also *Monetary Policy Committee.*
Bank Rate	The official interest rate set by the *Monetary Policy Committee*, and the rate of interest paid by the *Bank of England* on commercial bank deposits. Colloquially termed the "base rate".
Bid	A bid to buy a *security* at a certain price (the bid price), or a bid to borrow money at a certain interest rate (the bid rate).
Bill	A certificate of *short-term* debt issued by a company, government, or other institution, which is tradable on financial markets
Bond	A certificate of *long-term* debt issued by a company, government, or other institution, which is tradable on financial markets.
Borrowing	Usually refers to the stock of outstanding loans owed and *bonds* issued.
Broker	Regulated firm that matches either borrowers and lenders (a money broker) or buyers and sellers of *securities* (a stockbroker) with each other in order to facilitate transactions.
Building society	A mutual organisation that performs similar functions to a *retail bank* but is owned by its customers.
Capital	**(1)** Long-term, as in *capital expenditure* and *capital receipt.* **(2)** Principal, as in *capital gain* and capital value. **(3)** Investments in *financial institutions* that will absorb losses before *senior unsecured creditors.*
Capital expenditure	Expenditure on the acquisition, creation or enhancement of fixed assets that are expected to provide value for longer than one year, such as property and equipment, plus expenditure defined as capital in legislation such as the purchase of certain investments.
Capital finance	Arranging and managing the cash required to finance *capital expenditure*, and the associated accounting.
Capital financing requirement (CFR)	A local authority's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with *capital expenditure* and decreases with *capital finance* and *MRP*.
Capital markets	The markets for long-term finance, including *bonds* and *shares*. See also *money markets*.

GLOSSARY **Appendix 7**

Capital receipt	Cash obtained from the sale of an item whose purchase would be *capital expenditure*. The law only allows local authorities to spend capital receipts on certain items, such as new capital expenditure. They are therefore held in a capital receipts reserve until spent.
Cash plus fund	A *pooled fund is* similar to a *money market fund* but with a *WAM* up to around six months.
Central bank	A government agency responsible for setting interest rates, regulating banks and maintaining financial stability.
Certificate of deposit (CD)	A short-term *debt* instrument, similar to a *deposit*, but that is tradable on the *money markets*.
CIPFA	The Chartered Institute of Public Finance and Accountancy - the professional body for accountants working in the public sector. CIPFA also sets various standards for local government.
Commercial investment	An investment whose main purpose is generating income, such as *investment property*.
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.
Counterparty limit	The maximum amount an investor is willing to lend to a *counterparty*, in order to manage *credit risk*.
Covered bond	*Bond* issued by a *financial institution* that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds. Covered bonds are exempt from *bail-in*.
CPI	Consumer Price Index - the measure of inflation targeted by the *Monetary Policy Committee*, measured on a harmonised basis across the European Union.
Credit default swap (CDS)	*Derivative* for swapping *credit risk* on a particular issuer, similar to an insurance policy where the buyer pays a *premium* against the risk of default. Also used as an indicator of credit risk: the higher the premium, the higher the perceived risk.
Credit rating	Formal opinion by a *credit rating agency* of a *counterparty*'s future ability to meet its financial obligations. As it is only an opinion, there is no guarantee that a highly rated organisation will not default.
Credit rating agency	An organisation that publishes *credit ratings*. The three largest agencies are Fitch, Moody's and Standard & Poor's but there are many smaller ones.
Credit risk	The risk that a *counterparty* will *default* on its financial obligations.
Debt	**(1)** A contract where one party owes money to another party, such as a *loan*, *deposit* or *bond*. Contrast with *equity*. **(2)** In the *Prudential Code*, the total outstanding *borrowing* plus *other long-term liabilities.*
Default	Failure to meet an obligation under a debt contract, including the repayment of cash or compliance with a *covenant*, usually as a result of being in financial difficulty (rather than an administrative oversight).

GLOSSARY **Appendix 7**

Deflation	Negative inflation, which central banks are keen to avoid since households tend to delay spending waiting for prices to fall further, leading to further deflation.
Deposit	A regulated placing of cash with a *financial institution*. Deposits are not tradable on financial markets.
Derivative	Financial instrument whose value is derived from an underlying instrument or index, such as a *swap*, *option* or *future*. Derivatives can be used to gain exposure to, or to help protect against, changes in the value of the underlying.
Discount	**(1)** The amount that the early repayment cost of a loan is below its principal, or the price of a bond is below its nominal value. **(2)** To calculate the *present value* of an investment taking account of the time value of money.
Diversification	The spreading of risk across a variety of exposures in order to reduce the risk. For example, investing in a range of *counterparties* to limit *credit risk* or borrowing to a range of *maturity* dates to limit *refinancing risk*.
Duration	In relation to a *bond* or *bond fund*, the weighted average time of the future cash flows from today, usually expressed in years. The longer the duration, the more the price moves for a given change in interest rates.
ECB	European Central Bank – the *central bank* of the Eurozone, based in Frankfurt, Germany.
Embedded derivative	A *derivative* that is combined into another financial instrument, such as the *options* embedded in a *LOBO*.
Equity	**(1)** The residual value of an entity's assets after deducting its liabilities. **(2)** An investment in the residual value of an entity, for example ordinary shares.
Fair value	*IFRS* term for the price that would be obtained by selling an investment, or paid to transfer debt, in a market transaction.
Federal Reserve	The *central bank* of the USA, often just called "the Fed".
Financial instrument	*IFRS* term for investments, borrowing and other cash payable and receivable.
Financing costs	In the *Prudential Code*, interest payable on *debt* less investment income plus *premiums* less *discounts* plus *MRP*.
Future	A *derivative* whose payments depend on the future value of a variable.
Fund manager	Regulated firm that manages *pooled funds*.
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
General Fund	A local authority reserve that holds the accumulated surplus or deficit on revenue income and expenditure, except on council housing.
Gilt	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
Gilt yield	*Yield* on *gilts*. Commonly used as a measure of risk-free long-term interest rates in the UK.
Guarantee	An arrangement where a third party agrees to pay the contractual payments on a *loan* to the lender if the borrower *defaults*.

GLOSSARY **Appendix 7**

IFRS	International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010.
Impairment	A reduction in the value of an investment caused by the *counterparty* being in financial difficulty.
Interest	Compensation for the use of cash paid by borrowers to lenders on *debt* instruments.
Interest rate risk	The risk that unexpected changes in interest rates cause an unplanned loss, for example by increased payments on borrowing or lower income on investments.
Internal borrowing	A local government term for when actual "external" *debt* is below the *capital financing requirement*, indicating that difference has been borrowed from internal resources instead; in reality this is not a form of borrowing.
Investment guidance	Statutory guidance issued by MHCLG and the devolved governments on local government investments. Local authorities are required by law to have regard to the relevant investment guidance.
Investment strategy	A document required by *investment guidance* that sets out a local authority's investment plans and parameters for the coming year. Sometimes forms part of the authority's *treasury management strategy*.
Lease	A contract where one party permits another to make use of an asset in return for a series of payments. It is economically similar to buying the asset and borrowing a loan, and therefore leases are often counted as a type of *debt*.
Liability benchmark	Term in CIPFA's Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level. Used to compare against the actual and forecast level of borrowing.
Loan	Contract where the lender provides a sum of money (the *principal*) to a borrower, who agrees to repay it in the future together with *interest*. Loans are not normally tradable on financial markets. There are specific definitions in government *investment guidance*.
Long-term	Usually means longer than one year.
Maturity	**(1)** The date when an investment or borrowing is scheduled to be repaid. **(2)** A type of loan where the principal is only repaid on the maturity date.
MHCLG	Ministry of Housing, Communities and Local Government – the central government department that oversees local authorities in England.
Monetary policy	Measures taken by *central banks* to boost or slow the economy, usually via changes in interest rates. Monetary easing refers to cuts in interest rates, making it cheaper for households and businesses to borrow and hence spend more, boosting the economy, while monetary tightening refers to the opposite.
Monetary Policy Committee (MPC)	Committee of the *Bank of England* responsible for implementing *monetary policy* in the UK by changing *Bank Rate* and *quantitative easing* with the aim of keeping *CPI* inflation at around 2%.
Money market fund (MMF)	A *pooled fund* which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to *CNAV* and *LVNAV* funds with a *WAM* under 60 days which offer instant access, but the European Union definition extends to include *cash plus funds*.
Money markets	The markets for short-term finance, including *deposits* and *T-bills*.

GLOSSARY **Appendix 7**

MRP	Minimum revenue provision **- a**n annual amount that local authorities are required to set aside and charge to revenue for the repayment of debt associated with capital expenditure. Local authorities are required by law to have regard to government guidance on MRP.
Municipal bond	*Bond* issued or guaranteed by local authorities.
Municipal bonds agency	Company that issues *bonds* in the *capital market* and lends the proceeds back to local authorities. The bonds are guaranteed by the local authorities.
Net borrowing	*Borrowing* minus *treasury investments*.
Net revenue stream	In the *Prudential Code*, income from general government grants, Council Tax and rates.
Notice account	A *deposit* account where the cash can be called back after a given notice period.
Other long-term liabilities	*Prudential Code* term for *credit arrangements*.
Operational boundary	A *prudential indicator* showing the most likely, prudent, estimated level of external *debt*, but not the worst-case scenario. Regular breaches of the operational boundary should prompt management action.
Option	A *derivative* where the holder pays a *premium* to have the right, but not the obligation, to buy or sell a security or enter into a defined transaction.
Outlook	A *credit rating agency's* expected direction of travel in the *long-term rating* over the next two years.
Pension Fund	Ringfenced account for the income, expenditure and investments of the local government pension scheme. Pension fund investments are not considered to be part of *treasury management*.
Pooled fund	Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
Premium	**(1)** The amount that the early repayment cost of a loan is above the principal, or the price of a bond is above its nominal value. **(2)** The initial payment made under a *derivative*.
Principal	The amount of money originally lent on a *debt* instrument.
Private Finance Initiative (PFI)	A government scheme where a private company designs, builds, finances and operates assets on behalf of the public sector, in exchange for a series of payments, typically over 30 years. Counts as a *credit arrangement* and *debt.*
Property fund	A *pooled fund* that mainly invests in property. Due to the costs of buying and selling property, including *stamp duty land tax*, there is usually a significant fee charged on initial investment, or a significant difference between the *bid* and *offer* price.
Prudential Code	Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice. Local authorities are required by law to have regard to the Prudential Code.
Prudential indicators	Indicators required by the *Prudential Code* and determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable.

GLOSSARY **Appendix 7**

PWLB	Public Works Loans Board - a statutory body operating within the *DMO* that lends money from the National Loans Fund to local authorities and other prescribed bodies and collects the repayments. Not available in Northern Ireland.
Redemption	The process of withdrawing cash from a *pooled fund* and cancelling the units of shares. Redemptions can be suspended in certain circumstances detailed in the *prospectus*.
Refinancing risk	The risk that maturing loans cannot, be refinanced, or only at higher than expected interest rates leading to an unplanned loss. Managed by maintaining a smooth *maturity profile*.
Registered Provider of Social Housing (RP)	An organisation that is registered to provide social housing, such as a housing association. Also known as a registered social landlord or RSL.
Sector limit	The maximum amount an investor is willing to lend to all *counterparties* in a particular industry sector, in order to manage *credit risk*.
Security	**(1)** A *financial instrument* that can be traded on a *secondary market.* **(2)** The concept of low *credit risk.* **(3)** *Collateral.*
Secured investment	An investment that is backed by *collateral* and is therefore normally lower *credit risk* and lower yielding than an equivalent unsecured investment.
Service investments	Investments made to promote a local authority's public service objectives, for example a *loan* to a local charity or *shares* in a local company.
Share	An *equity* investment, which usually also confers ownership and voting rights.
Short-term	Usually means less than one year.
Swap	A *derivative* where the *counterparties* exchange cash flows, for example fixed rate interest and variable rate interest.
Total return	The overall return on an investment, including *interest*, *dividends*, *rent*, fees and *capital gains and losses*.
Treasury bill	Treasury bill - a *bill* issued by a government.
Treasury investments	Investments made for *treasury management* purposes, as opposed to *commercial investments* and *service investments*.
Usable reserves	Resources available to finance future *revenue* and/or *capital expenditure.* Some usable reserves are ringfenced by law for certain expenditure such as on schools or council housing.
Volatility	A measure of the variability of a price or index, usually expressed as the annualised standard deviation.
Working capital	The cash surplus or deficit arising from the timing differences between income/expenditure in accounting terms and receipts/payments in cash terms.
Yield	A measure of the return on an investment, especially a *bond*. The yield on a fixed rate bond moves inversely with its price.

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PCC
Office of the Police and Crime Commissioner
Devon and Cornwall

POLICE AND CRIME COMMISSIONER FOR DEVON AND CORNWALL

CAPITAL STRATEGY 2023/24 to 2026/27

POLICE AND CRIME COMMISSIONER FOR DEVON AND CORNWALL
CAPITAL STRATEGY 2023/24 to 2026/27

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POLICE AND CRIME COMMISSIONER FOR DEVON AND CORNWALL
CAPITAL STRATEGY 2023/24 to 2026/27

1.0 Introduction

1.1. This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.2. It addresses the capital components of the wider financial strategies adopted by the Police and Crime Commissioner (PCC). It identifies the links and relationships that need to be made in considering and implementing the Capital Programme to support the Police and Crime Plan priorities. This is done through the Medium Term Financial Strategy (MTFS) which sets out the governance and control framework within which the investment planning and delivery takes place.

1.3. Decisions made this year on capital and treasury management will have financial consequences for the PCC for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report. The Prudential Code and the Treasury Management Code were both reviewed in 2021 and this Strategy complies with the requirements of the new code.

2.0 Capital Expenditure and Financing

2.1. The Capital expenditure is where the PCC spends money on assets, such as property or vehicles, that will be used for more than one year.

2.2. In 2023/24, the PCC is planning capital expenditure of £20.430mn as summarised in Table 1 below:

Table 1: Prudential Indicator: Actual and Estimates of Capital Expenditure

	2021/22 Actual £'000	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Capital Programme						
Vehicles Replacements	1,662	3,756	2,727	2,620	2,253	1,830
ICT	4,023	7,741	7,325	5,438	4,318	3,879
Estates	4,850	9,501	8,989	8,830	5,331	12,250
Other Capital	882	1,384	1,389	1,507	1,130	1,000
REFCUS	13	0	0	0	0	0
Total Capital Programme*	**11,430**	**22,382**	**20,430**	**18,395**	**13,032**	**18,959**

*The figures exclude the impact of IFRS16 as the adoption of this standard relates to a change in accounting treatment and does not represent cash expenditure.

2.3. A significant number of projects within the capital programme are recurring such as the Vehicle Replacement Programme, IT infrastructure, and estates projects. This is important when considering the funding of the programme. The main ‘one off’ capital project is the PRISM programme of IT system improvements (£4.149mn over the MTFS period). The PCC has no plans to incur capital expenditure on investments.

2.4. **Governance**: Budget holders prepare business cases to include new projects in the capital programme. The business cases are reviewed by Finance who confirm the financing cost and revenue impacts. The business case must be considered by the relevant operational board to confirm their support and links to the PCC priorities before the Capital Strategy Group considers the bids for inclusion within the programme. The Capital Strategy Group considers the financing costs as well as the timing and overall affordability and will make recommendations to the Resources Board. The final capital programme is then presented to the PCC for approval in February each year. Once approved, the capital programme is then monitored by the Capital Strategy Group and Resource Board on a quarterly basis.

2.5. All capital expenditure must be financed, either from external sources (grants and other contributions), own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is shown in Table 2 below:

Table 2: Capital Financing

	2021/22 Actual £'000	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Funding						
Grant	941	272	163	54	0	0
Capital Receipts	0	0	103	845	0	0
Earmarked Reserves	852	8,790	6,727	3,737	1,863	200
Revenue Contribution to Capital	5,241	5,230	4,434	5,129	6,169	6,633
Borrowing	4,396	8,090	9,003	8,630	5,000	12,126
Total Funding*	**11,430**	**22,382**	**20,430**	**18,395**	**13,032**	**18,959**

*The figures exclude the impact of IFRS16 as the adoption of this standard relates to a change in accounting treatment and does not represent cash expenditure.

2.6. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Planned MRP budgets are shown in Table 3 below:

Table 3: Replacement of prior years' debt finance

	2021/22 Actual £'000	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Minimum Revenue Provision	**2,271**	**2,255**	**2,345**	**2,856**	**3,174**	**3,477**

2.7. The PCC's full minimum revenue provision statement can be found in the Treasury Management Strategy.

2.8. The borrowing strategy is set out in the annual Treasury Management Strategy. Whilst borrowing is an important funding source, the revenue implications can be significant for shorter life assets. Borrowing will therefore usually be used to fund long term assets.

2.9. The PCC's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £6.865mn during 2023/24. Based on the above figures for expenditure and financing, the PCC's estimated CFR is shown in Table 4 below:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	2021/22 Actual £'000	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Total CFR	**69,541**	**75,320**	**82,185**	**87,887**	**87,641**	**96,220**

*The figures exclude the impact of IFRS16 as the adoption of this standard relates to a change in accounting treatment and does not represent cash expenditure.

2.10. **Asset management:** To ensure that capital assets continue to be of long-term use, the PCC has an asset management strategy in place. This sets out how the PCC will manage the estate going forward.

2.11. **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. All disposals of surplus land and buildings must be approved by the PCC. When making any decision to dispose of assets the PCC must have regard to the right of the Chief Constable to have unfettered access to operational assets. The PCC shall consult with the relevant governance board and notify the Chief Constable. The PCC will have regard to the views expressed by the relevant governance board and the Chief Constable, but the final decisions will be a matter for the PCC. There are no new plans to generate capital receipts in the coming financial year.

3.0 Treasury Management

3.1. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the PCC's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

3.2. Due to decisions taken in the past, the PCC held £30.277mn of external borrowing, £11.200mn short term borrowing with Local Authorities and finance leases of £63k as at 31 March 2022. The PCC also held treasury investments totalling £27.849mn as at 31 March 2022. The PCC continues to maximise the use of the cash held before taking costly external debt, this is referred to as internal borrowing. It is anticipated the level of internal borrowing at 31/03/2023 will be £36.946mn.

3.3. **Borrowing strategy:** The main objective when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting, and the PCC therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.

3.4. The PCC does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

3.5. Projected levels of the PCC's total outstanding debt (which comprises borrowing and leases) are shown in Table 6 below, compared with the capital financing requirement.

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31/03/2022 Actual £'000	**31/03/2023 Forecast £'000**	**31/03/2024 Estimate £'000**	**31/03/2025 Estimate £'000**	**31/03/2026 Estimate £'000**	**31/03/2027 Estimate £'000**
Debt incl. Leases	30,340	38,374	47,584	56,142	59,070	71,126
CFR	69,541	75,320	82,185	87,887	87,641	96,220

3.6. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen in table 6, the PCC expects to comply with this in the medium term.

3.7. **Liability benchmark:** To compare the PCC's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end. This benchmark is currently £12.428mn and is forecast to rise to £71.120mn over five years as shown in Table 7.

Table 7: Borrowing and the Liability Benchmark

	31/03/2022 Actual £'000	**31/03/2023 Forecast £'000**	**31/03/2024 Estimate £'000**	**31/03/2025 Estimate £'000**	**31/03/2026 Estimate £'000**	**31/03/2027 Estimate £'000**
External Borrowing	30,277	38,367	47,370	56,000	59,000	71,126
Liability Benchmark	12,428	35,613	52,571	61,245	62,071	71,120

3.8. Table 7 shows that the PCC expects to borrow above its liability benchmark in some years.

3.9. **Affordable borrowing limit:** The PCC is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt). In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt

	2021/22 Limit £'000	**2022/23 Limit £'000**	**2023/24 Limit £'000**	**2024/25 Limit £'000**	**2025/26 Limit £'000**	**2026/27 Limit £'000**
Operational Boundary	50,340	63,374	72,584	81,142	84,070	96,126
Authorised Limit	60,340	73,374	82,584	91,142	94,070	106,126

3.10. Further details on borrowing can be found in the Treasury Management Strategy.

3.11. **Treasury investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

3.12. The PCC's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer term is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy, and the PCC may request its money back at short notice.

Table 9: Treasury management investments

	31/03/2022 Actual £'000	31/03/2023 Forecast £'000	31/03/2024 Estimate £'000	31/03/2025 Estimate £'000	31/03/2026 Estimate £'000	31/03/2027 Estimate £'000
Investments	27,849	12,754	4,799	4,755	6,929	10,306

3.13. Further details on investments and prudential indicators can be found in the treasury management strategy.

3.14. **Risk management:** The effective management and control of risk are prime objectives of the PCC's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses.

3.15. **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Treasurer and Treasury team, who must act in line with the Treasury Management Strategy approved by the PCC. Quarterly reports on treasury management activity are presented to Resources Board. The Independent Audit Committee also consider the quarterly reports.

4.0 Investments for Service Purposes

4.1. The PCC could make investments to assist local policing services, however they do not currently hold any such investments.

5.0 Commercial Activities

5.1. The PCC does not invest in commercial property however there are a number of properties classed as investment properties as at 31 March 2022 as they no longer have an operational function. These properties are currently valued at £0.574mn comprising of 2 properties providing a net return after all costs of 5.06%.

5.2. **Risk management:** There are additional risks with commercial investments than with treasury investments. The principal risk exposures include vacancies at the end of tenancies and a reduction in capital value. The risk of vacancies is mitigated by the intention to sell the properties once vacant possession has been achieved thereby generating a capital receipt and reducing future borrowing and associated revenue costs. No further commercial investments are anticipated.

5.3. **Governance:** Day to day decisions on investment properties are made by the Head of Estates in consultation with the Treasurer. Any decision to sell would be made by the PCC.

Table 10: Prudential Indicator: Net income from commercial investments to net revenue stream

	2021/22 Limit £'000	2022/23 Limit £'000	2023/24 Limit £'000	2024/25 Limit £'000	2025/26 Limit £'000	2026/27 Limit £'000
Net Income	(29)	(30)	(30)	(31)	(32)	(33)
Proportion of net revenue stream	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%

6.0 Liabilities

6.1. In addition to debt detailed above, the PCC is committed to making future payments to cover its pension fund deficit (31 March 2019 valuation of £398mn). It has also set aside £3.020mn to cover provisions. The PCC is also at risk of having to pay for: a £21,000 APCC pension guarantee; a £124k ICT financial guarantee; and compensation claims regarding the public service pension scheme reform. No funds have been put aside for these liabilities because it is not probable that an outflow of resources is required for the guarantee. This also applies to the compensation claims but in addition the obligation cannot be measured reliably. Therefore, these liabilities have been shown as contingent liabilities in the 2021/22 accounts.

6.2. **Governance:** Decisions on incurring new discretional liabilities are taken by the PCC in consultation with Treasurer and Director of Finance where relevant. The risk of liabilities crystallising and requiring payment is monitored by the PCC, Chief Executive and Treasurer and reported quarterly to the Resources Board.

6.3. Further details on the liabilities and guarantees can be found in the 2021/22 Statement of Accounts.

7.0 Revenue Budget Implications

7.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax and general government grants.

Table 11: Prudential Indicator: Proportion of financing costs to net revenue stream

	2021/22 Actual £'000	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Financing Costs	2,271	3,589	3,988	5,007	5,777	6,409
Proportion of net revenue stream	1.01%	0.97%	1.02%	1.22%	1.37%	1.48%

*The figures exclude the impact of IFRS16 as the adoption of this standard relates to a change in accounting treatment and does not represent cash expenditure.

7.2 Further details on the revenue implications of capital expenditure can be found in the MTFS.

7.3 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 40 years into the future. The Treasurer and Director of Finance are satisfied that the proposed capital programme is prudent, affordable and sustainable following the detailed review of the programme at the Capital Strategy Group and the development of the MTFS including the anticipated revenue impacts of the capital programme.

8.0 Knowledge and Skills

8.1 The PCC employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, both the Treasurer and Director of Finance are qualified accountants with substantial experience, and the Head of Business Accounting and Head of Technical Accounting are also qualified accountants. Where necessary, the PCC pays for staff to study towards relevant professional qualifications including CIPFA, ACCA and AAT.

8.2 Where the PCC needs additional resources or where staff do not have the knowledge and skills required, external advisers and consultants that are specialists in their field are used. The PCC currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the PCC has access to knowledge and skills commensurate with its risk appetite.

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POLICE AND CRIME COMMISSIONER FOR DEVON AND CORNWALL

RESERVES STRATEGY

2023/24 to 2026/27

POLICE AND CRIME COMMISSIONER FOR DEVON AND CORNWALL
RESERVES STRATEGY 2023/24 to 2026/27

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POLICE AND CRIME COMMISSIONER FOR DEVON AND CORNWALL
RESERVES STRATEGY 2023/24 to 2026/27

1.0 Introduction

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) maintains guidance on the establishment and maintenance of local authority reserves and balances, which is a foundation for good financial management, and is followed by Police and Crime Commissioners. The guidance identifies that reserves can be held for 3 main purposes:

- As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the general reserves.
- As a contingency to cushion the impact of unexpected events or emergencies - this also forms part of the general reserves.
- As a means of building up funds to meet known or predicted requirements; these specific reserves are known as earmarked reserves and remain legally part of the total "General Fund".

1.2 Police and Crime Commissioners may hold a Capital Receipts Reserve. This reserve holds the proceeds from the sale of assets and can only be used for capital purposes (as specified in the capital finance and accounting regulations).

1.3 In addition, the Home Office issued specific **Police finance reserves guidance** on 31 January 2018, which is provided in full below.

Each Police and Crime Commissioner should publish their reserves strategy on their website, either as part of their medium-term financial strategy or in a separate reserves strategy document. The reserves strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve held for each year. The reserves strategy should cover revenue and capital reserves and provide information for the period of the medium-term financial plan (and at least two years ahead).

Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the Police and Crime Commissioner's medium term financial plan.

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

- *how the level of the general reserve has been set;*
- *justification for holding a general reserve larger than five percent of budget;*
- *details of the activities or items to be funded from each earmarked reserve, and how these supports the Police and Crime Commissioner and Chief Constable's strategy to deliver a good quality service to the public. Where an earmarked reserve is intended to fund a number of projects or programmes*

(for example, a change or transformation reserve), details of each programme or project to be funded should be set out.

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

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

2.0 Reserves Strategy

2.1 The Police and Crime Commissioner's Reserve Strategy has the following key principles: -

- The reserves policy for Devon and Cornwall will be looking to maintain general balances at no more than 5% and no less than 3% of overall funding levels each year.
- The requirement for the Reserves will be reviewed at least annually. Those reserves no longer required for their intended purpose will be identified and made available for other defined priorities.
- Reserves will be assessed annually to ensure adequacy.
- Risk assumptions used when assessing reserves will be reviewed annually.
- A long-term view will be used when assessing the use of reserves to ensure all assets that support policing are maintained.
- General balances cover the general financial risks. This will include unexpected or unavoidable additional costs, such as a major operations, uninsured liabilities, or treasury management risks.

2.2 The total general and earmarked reserves are estimated to be £51.738mn as of 31 March 2023. The level of general balances will sit at £15.630mn which equates to 4.21% of the overall revenue funding. This level of general balances is within the overall parameters set within the strategy.

2.3 A significant element of the reserves will go towards the funding of the capital programme.

3.0 Planned Use of Reserves

3.1 The reserves position is shown in Table 1 below and indicates that overall level of reserves will reduce from £58.703mn as at 31/03/22 to £38.326mn as at 31/03/27.

POLICE AND CRIME COMMISSIONER FOR DEVON AND CORNWALL
RESERVES STRATEGY 2023/24 to 2026/27

Table 1: Projected Reserve Levels to 31/03/2027

	Actual Balance 31/3/2022 £mn	Forecast Balance 31/3/2023 £mn	Estimate Balance 31/3/2024 £mn	Estimate Balance 31/3/2025 £mn	Estimate Balance 31/3/2026 £mn	Estimate Balance 31/3/2027 £mn
Earmarked Reserves						
Estates Development Reserve	0.608	1.000	0.000	0.000	0.000	0.000
Capital Financing Reserve	14.983	11.687	5.760	2.794	1.881	2.025
ESN Capital Reserve	10.225	10.010	9.238	9.217	9.017	8.817
Vision Zero South West	4.721	3.375	3.462	3.651	3.841	4.030
Improvement Reserve	0.000	3.101	3.101	3.101	3.101	3.101
Budget Management Fund	7.169	5.634	4.106	3.919	3.848	3.722
Police and Crime Plan Reserve	1.068	1.068	1.068	1.068	1.068	1.068
PEQF Reserve	0.000	0.000	0.000	0.000	0.000	0.000
Uplift Reserve	3.051	0.233	0.233	0.233	0.233	0.233
Total Earmarked Reserves	**41.825**	**36.108**	**26.968**	**23.983**	**22.989**	**22.996**
Capital Reserves						
Capital Grant	0.000	0.000	0.000	0.000	0.000	0.000
Capital Receipts	0.948	0.845	0.000	0.000	0.000	0.000
Total Capital Reserves	**0.948**	**0.845**	**0.000**	**0.000**	**0.000**	**0.000**
General Balances	**15.930**	**15.630**	**15.330**	**15.330**	**15.330**	**15.330**
Total Reserves and Balances	**58.703**	**52.583**	**42.298**	**39.313**	**38.319**	**38.326**

3.2 Earmarked reserves relate to specific projects or liabilities, where the anticipated extent of the liability, and the timescales involved, are estimated. Reserves have been set aside for significant areas and items of expenditure, and if required will be brought into revenue in the year in which expenditure is incurred.

The earmarked reserves in the table above are held for the following reasons:-

- **The Estates Development Reserve** is used to fund the costs of rationalising and developing the estate. Including feasibility work, planning applications, consultancy costs and project management.

- **The Capital Financing Reserve is** used to fund the capital programme.

- **The Emergency Services Network (ESN) Capital Reserve** is used to enable work and the acquisition of new national communication systems and hardware.

- **The Vision Zero South West Reserve** is the ring-fenced pooled balance of the Vision Zero South West Road Safety Partnership.

- **The Budget Management Fund** allows the transfer of carry-forward requests to the following year.

- **The Police and Crime Plan Reserve** is used to fund innovation projects in support of the Police and Crime Plan objectives and local Police and Crime Commissioner's priorities.

- **The PEQF Reserve** is used to fund police qualifications.

- **The Uplift Reserve** is used to fund infrastructure relating to the future years uplift programme.

- **The Capital Reserves** relates to setting aside unused capital finances that have been received, but not applied, in any year. It is currently expected that this will relate to unused capital grant and capital receipts. These reserves may only be used for capital purposes.

- **General Balances** are used to mitigate against unknown or unexpected events that occur and that cannot be accommodated within the revenue or capital budgets. These balances are maintained at no more than 5% and not less than 3% of the annual revenue budget.

- The key risks and liabilities covered by reserves and provisions are shown in Table 4. In each case, the timing and amount cannot be exactly predicted, but the figures shown reflect the latest assessment of potential cost.

4.0 Home Office Classifications

4.1 The Home Office have set clear guidance on publishing the reserves strategy. This included information on each of the reserves and how they fall within the classifications shown in Table 2 below.

Table 2: Home Office Classifications

	Actual Balance 31/3/2022 £mn	Forecast Balance 31/3/2023 £mn	Estimate Balance 31/3/2024 £mn	Estimate Balance 31/3/2025 £mn	Estimate Balance 31/3/2026 £mn	Estimate Balance 31/3/2027 £mn
Planned Programme and Projects within the current MTFS period	42.773	36.953	26.968	23.983	22.989	22.996
Specific Projects and Programmes beyond the current MTFS period	0.000	0.000	0.000	0.000	0.000	0.000

General Contingency	15.930	15.630	15.330	15.330	15.330	15.330
Total	**58.703**	**52.583**	**42.298**	**39.313**	**38.319**	**38.326**

5.0 Review of Reserves and Risk Assumptions

5.1 The main financial risks contained on the Force risk register and the Office of the Police and Crime Commissioner risk register are shown below and inform the reserves policy:

- Agreed pay awards exceed the budget assumptions.
- The high level of inflation and energy costs.
- Demand increases above the levels that are affordable within the set budget.
- The council tax base does not increase as assumed.
- The council tax surplus is not generated to the levels assumed.

5.2 In addition to these wider risks the following areas are kept under review:

- Increased funding is required for the Force change programme.
- Revenue savings are not delivered on time.
- Increases in short and long term interest rates.
- Over reliance on internal borrowing to temporarily fund the capital programme.
- The review of Home Office formula grant funding introduces annual losses of grant.
- The top-slice funding in future years depletes resources without reciprocal benefit to the revenue budget.
- Budget uncertainty through assumption changes.
- Major incident cost overrun.
- Further cost transfers from the centre (e.g. Emergency Services Network and IT company costs).
- Reductions in local authority funding placing pressure on the police service.

5.3 Assessing Adequacy

5.3.1 The current expected use of earmarked reserves shows a significant reduction in the balance available by the end of 2023/24. This assumes that the capital programme is delivered on time and within budget. A target to increase the revenue contribution to capital over the life of the MTFS has been included in 2023/24.

5.3.2 In addition to the risks covered by earmarked reserves, there are further, unquantified risks and liabilities. The main source of funding for these risks is General Balances.

5.3.3 The key financial risks are summarised in Table 4 below. For each, an assessment of potential risk is shown, but clearly, in each case the actual risk could be significantly different, and an assessment of these risks will need to be reviewed regularly.

Table 4: Key Financial Risks

Identified Risk	£mn's
Future capital funding	1.0
Inflation and cost of living	3.0
Increased pay award above assumptions	3.0
Major Operations	1.5
Uninsured Liabilities and claims	2.5
Other Unexpected Expenditure / Working Capital	2.0
Total Financial Liability	**13.0**

5.3.4 The financial risks shown in the table above would be temporary one-off funding. For those items that have an impact annually the funding would be used to allow time to deliver permanent savings.

5.3.5 The actual limit of general risks, such as major operations or uninsured losses, could of course be significantly more than the assessment shown. Risks around significant major operations are increasing, with increased reliance on more costly resourcing options such as overtime or mutual aid. If such a significant risk were realised, further funding would be sought in the first instance by re-prioritising the use of earmarked reserves.

5.3.6 The above risks can be mitigated by the funding allocation on General Balances. General Balances exists to cover the general financial risks faced by the Force, such as major operations, uninsured liabilities, or treasury management risks.

5.3.7 The total funding available on General Balances fully meets the assessed risks and liabilities. The level of General Balances is forecast to be £15.630m as of 31 March 2023.

5.3.8 On the basis of the above and given that risk calculation is not an exact science, the reserves and balances generally cover known liabilities and commitments and provide adequate cover for unknown liabilities at the assessed level for 2023/24.

5.3.9 Reserves will continue to be monitored and reviewed regularly throughout the year.

5.3.10 The Treasurer as statutory Section 151 officer confirms that these reserves provide an adequate level given the identified financial risks in the budget.

AGENDA NO: **7a**

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 13 December 2022

FOIA OPEN

TITLE OF REPORT: DORSET TREASURY MANAGEMENT, CAPITAL AND RESERVE STRATEGIES COVERING REPORT

REPORT BY: Julie Strange, Chief Financial Officer to the OPCC

PURPOSE OF THE REPORT:
To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	**Yes**
Internal Audit	**-**
External Audit	**-**
Financial reporting	**-**
Other matter *(please specify here)*	**-**
Appendices (*please specify the number)*	**3**

RECOMMENDATIONS:
The Independent Audit Committee is asked to:

Review the Report	**Yes**
Consider the Report	**-**
Note the report	**-**
Other (please specify here)	**-**

1. BACKGROUND INFORMATION

1.1 This report sets out three 2023/24 draft strategies: Treasury Management Strategy, Capital Strategy and Reserves Strategy.

1.2 All three strategies are intrinsic to the annual Budget and Medium Term Financial Plan which will be considered by the Police and Crime Panel on the 2 February 2023.

1.3 The Independent Audit Committee are asked to consider these strategies prior to the approval by the Police and Crime Commissioner (PCC).

2. TREASURY MANAGEMENT STRATEGY

2.1 The PCC has adopted the Chartered Institute of Public Finance and Accountancy's (CPIFA's) Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the PCC to approve a Treasury Management Strategy before the start of each financial year.

2.2 The PCC has also adopted the 2021 publication of the Prudential Code. This Code allowed authorities to defer introducing the revised reporting requirements until the 2023/24 financial year. The 2023/24 Treasury Management Strategy incorporates those changes.

2.3 The figures shown in the strategy are draft and will be updated once the budget figures have been finalised.

2.4 The draft 2023/24 Treasury Management Strategy is shown in Appendix 7c.

3. CAPITAL STRATEGY

3.1 The Prudential Code for Capital Finance in Local Authorities (*2021 Edition)* requires PCC to produce a capital strategy in order to help demonstrate that capital expenditure and investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability.

3.2 The 2021 publication of the Prudential Code allowed authorities to defer introducing the revised reporting requirements until the 2023/24 financial year. The 2023/24 Capital Strategy has undergone substantial revisions to ensure compliance with the Code.

3.3 The figures shown in the strategy are draft and will be updated once the budget figures have been finalised.

3.4 The draft 2023/24 Capital Strategy is shown in Appendix 7d.

4. RESERVES STRATEGY

4.1 The Chartered Institute of Public Finance and Accountancy (CPIFA) sets out guidance on establishing and maintaining reserves and balances. This guidance is a foundation for good financial management and has been adopted by the Police and Crime Commissioner (PCC).

4.2 The Reserves Strategy is reviewed annually and discloses each reserve held, its purpose and expected balances over the medium term.

4.3 The CIPFA guidance identifies that Revenue Reserves can be held for 3 main purposes:

- As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing (this forms part of general reserves)

- As a contingency to cushion the impact of unexpected events or emergencies (this also forms part of general reserves)

- As a means of building up funds to meet known or predicted requirements; these specific reserves are known as earmarked reserves and remain legally part of the total “General Fund”.

4.4 In addition, the PCC holds the following usable reserve:

- Capital Receipts Reserve – this reserve holds the proceeds from the sale of assets and can only be used for capital purposes (as specified in the capital finance and accounting regulations).

4.5 The Home Office issued specific **Police finance reserves guidance** on 31 January 2018, which is provided in the draft strategy.

4.6 There are some presentational changes in the Reserves Strategy.

4.7 The figures shown in the strategy are draft and will be updated once the budget figures have been finalised.

4.8 The draft 2023/24 Reserves Strategy is shown in Appendix 7e.

Julie Strange
Chief Financial Officer to the OPCC

29/11/2022

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AGENDA NO: 7b

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 13 DECEMBER 2022

FOIA OPEN

TITLE OF REPORT: DORSET 2022/23 TREASURY MANAGEMENT QUARTER 2 REPORT

REPORT BY: Julie Strange, Chief Financial Officer to the OPCC

PURPOSE OF THE REPORT:
To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	**Yes**
Internal Audit	**-**
External Audit	**-**
Financial reporting	**Yes**
Other matter	**-**
Appendices (*please specify the number)*	**4**

RECOMMENDATIONS:
The Independent Audit Committee is asked to:

Review the Report	**Yes**
Consider the Report	**-**
Note the report	**-**
Other (please specify here)	**-**

1. INTRODUCTION

1.1 The Treasury Management Strategy for 2022/23 is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

1.2 The Code also recommends a report on treasury management activities at least twice a year; a mid-year, and a year-end (outturn) report, and both are reported to the Independent Audit Committee. This report sets out the performance of the treasury management function for the period from 1 April 2022 to 30 September 2022.

1.3 Treasury management is defined as:

"The management of the Police and Crime Commissioner's borrowing, investments and cash flows, including 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".

1.4 Operational treasury management activity is undertaken by the Alliance finance function, supported by the treasury advisors Arlingclose Limited, under the direction of the Chief Financial Officer (Treasurer), and in accordance with the strategy and practices approved by the Commissioner.

2. EXTERNAL CONTEXT

2.1 **Economic background:** The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions.

2.2 A fuller explanation of the external context, as provided by the treasury advisors, Arlingclose Limited, is provided in Appendix 4.

3. INVESTMENT ACTIVITY

3.1 On the 30 September 2022 the short-term investments and treasury cash equivalents total balance was £12.022mn. Year to date cash and cash equivalent balances ranged between £374,943 and £25.107mn. The period-end investment position and the year-to-date change is shown at Appendix 1 Table 2.

3.2 Both the CIPFA Code and government guidance require funds to be invested prudently with regard to security and liquidity of investments before seeking the highest rate of return, or yield. The objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

3.3 Investments are reviewed quarterly and benchmarked against other similar organisations by Arlingclose Limited. The quarter 2 benchmarking is provided at Appendix 1 Table 3. The internal investment return on the Dorset balances was higher (1.87%) than the average return achieved by 9 other Police and Fire Authorities (1.67%).

3.4 The internal borrowing balance on the 30 September 2022 was £8.987mn.

3.5 You will also see that 61% of the funds are held in money market funds which have reasonable diversification and 34% of the funds are held with the Debt Management Office which is a secure counterparty. This investment approach was in line with Arlingclose's advice during quarter 2.

4. BORROWING ACTIVITY

4.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

4.2 On the 30 September 2022 the forecast underlying need to borrow for capital purposes (CFR) was £31.068mn compared to the budget of £49.092mn.

4.3 **Short Term Borrowing:** On the 30 September 2022, no short-term borrowing was held.

4.4 **Long Term Borrowing:** No new long term external borrowing had been arranged in quarter 2.

5. PERFORMANCE

5.1 The financial performance of treasury management activities is measured both in terms of its impact on the revenue budget and its relationship to benchmark interest rates. The Arlingclose benchmarking is provided at Appendix 1 Table 3.

5.2 Interest income forecast for the year to the 31 March 2023 is £151,862 compared to a budgeted amount of £5,800. The interest income budget was developed in November 2021 and was based on an interest rate of 0.05%. The hike in interest rates since the budget was set has been reflected in our forecasts.

5.3 In line with the investment strategy, liquid investments were diversified over a variety of providers.

5.4 Interest paid from 1 April to 30 September 2022 totalled £17,392 compared to a budgeted amount of £37,060. The budget includes an estimated interest cost associated with borrowing funds from external sources to fund the capital programme. This activity did not take place during the first six months of the year.

5.5 On the 30 September 2022, all treasury activity complied with the PCC's Treasury Management Strategy and Investment Strategy as well as all relevant statute, guidance and accounting standards. During the quarter, one redemption of £894,392 was not received into the bank account on the agreed contractual date, 4 August. The resulting total operational bank balance on that day was (£194k). This meant that we were below our daily minimum limit of £50,000 but we did not breach the strategy operational limit of £1.250mn.

Appendices

Appendix 1 – Investment Strategy
Appendix 2 – Treasury Management Indicators
Appendix 3 – Prudential Indicators
Appendix 4 – Economic Update provided by Arlingclose Ltd

INVESTMENT STRATEGY Appendix 1

Table 1: Investment Limits

Sector	Counterparty Limit	Sector Limit	30/09/2022
The UK Government	Unlimited	n/a	£4mn
Local Authorities and Other Government Entities	£3mn	Unlimited	£0mn
Secured Investments	£3mn	Unlimited	£0mn
Banks (unsecured)	£1.5mn	Unlimited	£0mn
Building Societies (unsecured)	£1.5mn	£3mn	£0mn
Registered Providers (unsecured)	£1.5mn	£7.5mn	£0mn
Money Market Funds (includes Cash Plus Funds)	£3mn	Unlimited	£7.205mn
Strategic Pooled Funds	£3mn	£15mn	£0mn
Operational Bank Account	£1.25mn	n/a	£0.817mn

Table 2: Investment Position

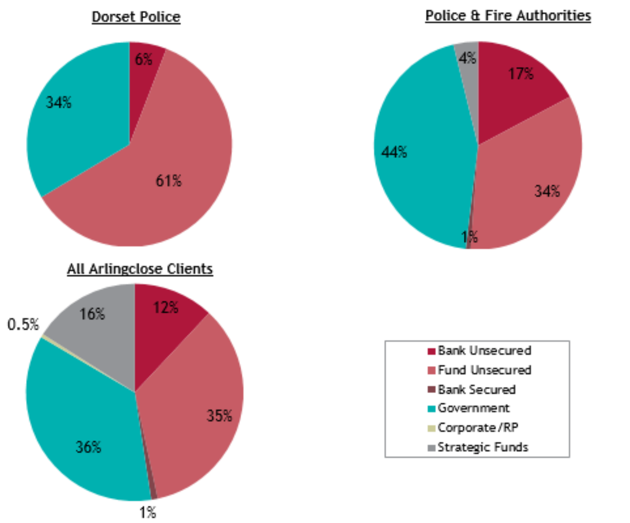
	31/03/2022 Actual Portfolio £'000	30/09/2022 Actual Portfolio £'000	Movement £'000
External Borrowing:			
Short Term Borrowing	(13,000)	0	13,000
Private Finance Initiatives	(20,359)	(21,386)	(1,027)
Other Long Term Liabilities	(608)	(668)	(60)
Finance Leases	(12)	(27)	(15)
Total Gross External Debt	**(33,979)**	**(22,081)**	**11,898**
Treasury Investments:			
Short Term Investments	3,992	0	(3,992)
Cash and Cash Equivalents	8,489	12,022	3,533
Total Treasury Investments	**12,481**	**12,022**	**(459)**
Net Investments/(Debt)	**(21,498)**	**(10,059)**	**11,439**

INVESTMENT STRATEGY Appendix 1

Table 3: Benchmarking Information

Investment Benchmarking
30 September 2022

	Dorset Police	9 Police & Fire Authorities Average	121 LAs Average
Internal Investments	£11.9m	£36.6m	£82.4m
Cash Plus & Short Bond Funds	£0.0m	£0.0m	£1.3m
Strategic Pooled Funds	£0.0m	£2.3m	£13.5m
TOTAL INVESTMENTS	**£11.9m**	**£38.9m**	**£97.1m**
Security			
Average Credit Score	4.26	3.90	4.29
Average Credit Rating	AA-	AA-	AA-
Average Credit Score (time-weighted)	3.06	2.96	4.07
Average Credit Rating (time-weighted)	AA	AA	AA-
Number of Counterparties / Funds	7	10	13
Proportion Exposed to Bail-in	66%	52%	55%
Liquidity			
Proportion Available within 7 days	66%	53%	45%
Proportion Available within 100 days	100%	83%	71%
Average Days to Maturity	4	35	18
Market Risks			
Average Days to Next Rate Reset	23	45	46
Strategic Fund Volatility	-	2.2%	6.2%
Yield			
Internal Investment Return	1.87%	1.67%	1.72%
Cash Plus Funds - Income Return	-	-	0.63%
Strategic Funds - Income Return	-	4.29%	3.97%
Total Investments - Income Return	**1.87%**	**1.77%**	**2.06%**
Cash Plus Funds - Capital Gain/Loss	-	-	-2.53%
Strategic Funds - Capital Gain/Loss	-	2.78%	-1.33%
Total Investments - Total Return	**1.87%**	**1.83%**	**1.47%**



Notes

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.
- Volatility is the standard deviation of weekly total returns, annualised.

TREASURY MANAGEMENT INDICATORS Appendix 2

Table 4: Security

The PCC has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of the investment portfolio.

	2022/23 Target	30/09/2022 Actual	Complied?
Portfolio average credit rating	A+	AA-	Yes

Table 5: Liquidity

The PCC has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected variation in the cash flow:

	2022/23 Target	30/09/2022 Actual	Complied?
Minimum limit at less than 31 days duration	£3mn	£12.022mn	Yes

The £12.022mn is mainly held with money markets which are very liquid in nature.

Table 6: Interest Rate Exposures

This indicator is set to control the PCC's exposure to interest rate risk.

	2022/23 Limit	30/09/2022 Actual	Complied?
Upper limit on 1 year revenue impact of a 1% rise in interest rates	(£200k)	(£112k)	Yes
Upper limit on 1 year revenue impact of a 1% fall in interest rates	£200k	£112k	Yes

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

TREASURY MANAGEMENT INDICATORS Appendix 2

Table 7: Maturity Structure of Borrowing

This indicator is set to control the PCC's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	2022/23		30/09/2022	Complied?
	Upper Limit	Lower Limit	Actual	
Under 12 months	100%	0%	0%	Yes
12 months and within 24 months	55%	0%	0%	Yes
24 months and within 5 years	65%	0%	0%	Yes
5 years and within 10 years	80%	0%	0%	Yes
10 years and above	100%	0%	0%	Yes

Table 8: Principal Sums Invested for Periods Longer than 365 days

The purpose of this indicator is to control the exposure to the risk of incurring losses by seeking early repayment of investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Long term treasury management investments indicator	2022/23	2023/24	2024/25	2025/26
Counterparty Limit on principal invested beyond year end	£3mn	£2.5mn	£2mn	£1.5mn
Actual Investment	£0mn	£0mn	£0mn	£0mn
Complied?	Yes	Yes	Yes	Yes

PRUDENTIAL INDICATORS Appendix 3

Table 9: Debt Limits

	2022/23 Estimate £'000	30/09/2022 Actual £'000	Operational Boundary £'000	Authorised Limit £'000	
External Borrowing	22,870	0	63,849	68,849	**Complied?**
Private Finance Initiatives	20,360	21,386			
Other Long Term Liabilities	607	668			
Finance Leases	12	27			
Total	**43,849**	**22,081**	**63,849**	**68,849**	**Yes**

Table 10: Capital Financing Requirement (CFR)

	2022/23 Estimate £'000	30/09/2022 Actual £'000	2022/23 Forecast £'000
Opening CFR	**34,343**	**30,864**	**30,864**
Capital expenditure to be funded by borrowing	17,725	1,693	8,885
Capital expenditure to be funded by PFI	507	254	507
Finance Leases	0	0	0
Less: Repayment of PFI	(2,563)	(1,282)	(2,563)
Less: Repayment of Other Long Term Liabilities	(119)	(60)	(119)
Less: Minimum Revenue Provision	(771)	(386)	(771)
Less: Finance Leases	(30)	(15)	(30)
Closing CFR	**49,092**	**31,068**	**36,773**

Table 11: Capital Expenditure and Financing

	2022/23 Estimate £'000	30/09/2022 Actual £'000	2022/23 Forecast £'000
Capital Expenditure	20,774	1,900	13,564
Total Expenditure	**20,774**	**1,900**	**13,564**
Capital Grants	0	55	265
Capital Receipts	0	63	756
Revenue Contribution to Capital	3,049	89	3,658
Borrowing	17,725	1,693	8,885
Total Financing	**20,774**	**1,900**	**13,564**

ECONOMIC UPDATE provided by Arlingclose Ltd Appendix 4

Economic background: The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions.

UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.

The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and –2.8% for regular pay.

With disposable income squeezed and higher energy bills still to come, consumer confidence fell to a record low of –44 in August, down –41 in the previous month. Quarterly GDP fell -0.1% in the April-June quarter driven by a decline in services output, but slightly better than the 0.3% fall expected by the Bank of England.

The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. the September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

On 23rd September the UK government, following a change of leadership, announced a raft of measures in a 'mini budget', loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.

Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

After hitting 9.1% in June, annual US inflation eased in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a 0.5% hike in May followed by three increases of 0.75% in June, July and September, taking policy rates to a range of 3% - 3.25%.

Eurozone CPI inflation reached 9.1% y/y in August, with energy prices the main contributor but also strong upward pressure from food prices. Inflation has increased steadily since April from 7.4%. In July the European Central Bank increased interest rates for the first time since 2011, pushing its deposit rate from –0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September by further hikes of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%.

Financial markets: Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.

Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The Sterling Overnight Rate (SONIA) averaged 1.22% over the period.

ECONOMIC UPDATE provided by Arlingclose Ltd Appendix 4

Credit review: In July Fitch revised the outlook on Standard Chartered from negative to stable as it expected profitability to improve thanks to the higher interest rate environment. Fitch also revised the outlook for Bank of Nova Scotia from negative to stable due to its robust business profile.

Also in July, Moody's revised the outlook on Bayerische Landesbank to positive and then in September S&P revised the GLA outlook to stable from negative as it expects the authority to remain resilient despite pressures from a weaker macroeconomic outlook coupled with higher inflation and interest rates.

Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.

Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Arlingclose's Economic Outlook for the remainder of 2022/23 (based on 26th September 2022 interest rate forecast)

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.25	4.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.75	4.25	3.75	3.25
Downside risk	0.00	-1.00	-1.00	-0.75	-0.50	-0.50	-0.50	-0.75	-1.25	-1.50	-1.75	-1.75	-1.75

Arlingclose expects Bank Rate to rise further during 2022/23 to reach 5% by the end of the year.

The MPC is particularly concerned about the demand implications of fiscal loosening, the tight labour market, sterling weakness and the willingness of firms to raise prices and wages.

The MPC may therefore raise Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose now expects Bank Rate to peak at 5.0%, with 200bps of increases this calendar year.

This action by the MPC will slow the economy, necessitating cuts in Bank Rate later in 2024.

Gilt yields will face further upward pressure in the short term due to lower confidence in UK fiscal policy, higher inflation expectations and asset sales by the BoE. Given the recent sharp rises in gilt yields, the risks are now broadly balanced to either side. Over the longer term, gilt yields are forecast to fall slightly over the forecast period.

Background: Monetary policymakers are behind the curve having only raising rates by 50bps in September. This was before the "Mini-Budget", poorly received by the markets, triggered a rout in gilts with a huge spike in yields and a further fall in sterling. In a shift from recent trends, the focus now is perceived to be on supporting sterling whilst also focusing on subduing high inflation.

There is now an increased possibility of a special Bank of England MPC meeting to raise rates to support the currency. Followed by a more forceful stance over concerns on the looser fiscal outlook. The MPC is therefore likely to raise Bank Rate higher than would otherwise have been necessary given already declining demand. A prolonged economic downturn could ensue.

Uncertainty on the path of interest rates has increased dramatically due to the possible risk from unknowns which could include for instance another Conservative leadership contest, a general election, or further tax changes including implementing windfall taxes.

The government's blank cheque approach to energy price caps, combined with international energy markets priced in dollars, presents a fiscal mismatch that has contributed to significant decline in sterling and sharp rises in gilt yields which will feed through to consumers' loans and mortgages and business funding costs.

UK government policy has mitigated some of the expected rise in energy inflation for households and businesses flattening the peak for CPI, whilst extending the duration of elevated CPI. Continued currency weakness could add inflationary pressure.

The UK economy already appears to be in recession, with business activity and household spending falling. The short- to medium-term outlook for the UK economy is relatively bleak.

Global bond yields have jumped as investors focus on higher and stickier US policy rates. The rise in UK government bond yields has been sharper, due to both an apparent decline in investor confidence and a rise in interest rate expectations, following the UK government's shift to borrow to loosen fiscal policy. Gilt yields will remain higher unless the government's plans are perceived to be fiscally responsible.

The housing market impact of increases in the Base Rate could act as a "circuit breaker" which stops rates rising much beyond 5.0%, but this remains an uncertainty.

23/11/2022

POLICE AND CRIME COMMISSIONER FOR DORSET

TREASURY MANAGEMENT STRATEGY 2023/24 to 2026/27

POLICE AND CRIME COMMISSIONER FOR DORSET
2023/24 to 2026/27 TREASURY MANAGEMENT STRATEGY STATEMENT

1.0 Introduction

1.1 This is the Treasury Management Strategy Statement for the Police and Crime Commissioner (PCC) for Dorset.

1.2 The PCC has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the PCC to approve a Treasury Management Strategy before the start of each financial year.

1.3 In addition, this strategy also complies with elements of the Local Government Act 2003, the CIPFA Prudential Code, the Ministry of Housing, Communities and Local Government (MHCLG) MRP Guidance and MHCLG Investment Guidance.

1.4 This report fulfils the PCC's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance.

1.5 Treasury Management is the management of the PCC's cash flows, borrowing and investments, and the associated risks. **The PCC funds are exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates as well as ensuring that revenue cash flow is adequately planned and funding is available to meet capital expenditure plans.** The successful identification, monitoring and control of financial risk are therefore central to the PCC's prudent financial management.

1.6 In accordance with the MHCLG Guidance, the PCC will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change: in interest rates; in the PCC's capital programme; or in the level of its investment balances.

1.7 The Treasury Management Strategy is integral to the Medium Term Financial Plan (MTFP) and this document should be read in conjunction with the report on the MTFP for 2023/24 to 2026/27.

1.8 This Strategy includes the Borrowing Strategy, the Investment Strategy and Prudential Indicators.

2.0 Treasury Management Strategy

2.1 On 31 March 2022 the PCC held treasury investments totalling £12.481mn and £36.183mn external debt.

2.2 This is set out in further detail in Appendix 1 Table 1. Forecast changes in these sums are shown in the balance sheet analysis in Appendix 1 Table 2.

2.3 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The PCC's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

2.4 Over the forecast period CFR will decrease by the amounts reflecting the reduction in the existing liabilities (e.g. minimum revenue provision) and will increase by any new unfinanced capital expenditure.

2.5 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the total debt should be lower than its highest forecast CFR over the next three years. Appendix 2 Table 9 shows that the PCC expects to comply with this recommendation during 2023/24.

2.6 The economic background, credit outlook and interest rate forecasts, provided by Arlingclose, is shown at Appendix 5.

2.7 Investment interest rates have been very volatile in 2022/23. Arlingclose Limited forecast the bank rate to reach 4.25% by March 2024. Taking into account this forecast and the time lag between bank base rate and money market rates, a budget of £243k has been set for 2023/24. For new borrowing the rate range (November 2022) is 2.85% to 4.73% depending on the term and source of the loan.

2.8 **Liability benchmark**: To compare the PCC's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This benchmark is the minimum amount of debt that the PCC would hold if internal borrowing was used up to the maximum level possible (i.e. using all reserves and cashflow surpluses). The PCC's liability benchmark is shown at Appendix 1 Table 3. This assumes the same forecasts as Appendix 1 Table 2, but that cash and investment balances are kept to a minimum level of £10mn at each year-end to maintain sufficient liquidity but minimise credit risk.

2.9 The liability benchmark is an important tool to help establish whether the PCC is likely to be a long-term borrower or long-term investor in the future, and so shapes the strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the PCC must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

2.10 Following on from the medium-term forecasts in Appendix 1 Table 3, the long-term liability benchmark assumes capital expenditure funded by external and internal borrowing; and minimum revenue provision on new capital expenditure based on various years depending on the type of asset.

2.11 In Appendix 1 Table 4, CFR forecasts, net loans requirement and liability benchmark are shown against actual borrowing for 10 years.

2.12 The liability benchmark shows that there is a borrowing requirement over the MTFP.

3.0 Borrowing Strategy

3.1 As at the 31 March 2022, the PCC held £22.415mn of PFI loans, £0.726mn of other long term loans, £13mn short term borrowing with Local Authorities and finance leases of £42k. The balance sheet forecast in Appendix 1 Table 2 shows that the PCC expects to borrow up to £25.148mn in 2023/24. The PCC may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing which is shown in Appendix 2 Table 11.

3.2 **Objectives:** The chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the PCC's long-term plans change is a secondary objective.

3.3 **Strategy:** Given the significant cuts in funding, the PCC's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the PCC is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal or short term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Treasurer with this 'cost of carry' and breakeven analysis. Its output may determine whether the PCC borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The PCC will consider PWLB as a source of borrowing as well as other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. The PWLB lending terms have been revised so that loans are no longer available to authorities that plan on buying investment assets primarily for yield. The PCC has no intention of undertaking this type of activity and so the access to PWLB loans is retained.

Alternatively, the PCC may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the PCC may borrow short-term loans to cover temporary cash flow shortages.

3.4 **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Dorset Police Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

3.5 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason;

and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the PCC.

3.6 **Short-term and variable rate loans**: These loans leave the PCC exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk.

3.7 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The PCC may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

4.0 <u>Investment Strategy</u>

4.1 The PCC holds invested funds, representing income received in advance of expenditure plus balances and reserves held. This activity, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with the CIPFA guidance. In the first 7 months of 2022/23, the PCC's investment balance has ranged between £0.295mn and £24.950mn. These levels may reduce in the forthcoming year.

4.2 **Objectives:** The CIPFA Code and the MHCLG Guidance requires the PCC to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The PCC's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the PCC will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

4.3 **Strategy:** As demonstrated by the liability benchmark above, the PCC expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments.

The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Commissioner may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by diversifying.

4.4 **Environmental, social and governance (ESG):** considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the PCC's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level.

4.5 **Business Model:** Under the IFRS 9 Financial Instruments standard, the accounting for certain investments depends on the PCC's approach to managing them. The PCC aims to realise value from its internally managed treasury investments and uses two business models to achieve this. One collects contractual cashflows e.g. a bank notice account and the other covers non-contractual investments such as pooled funds which include money market funds. The accounting treatment is different for each model with an unusable reserve used to recognise fair value gains and losses for the latter model.

4.6 **Approved counterparties:** The PCC may invest its surplus funds with any of the counterparty types shown in Appendix 1 Table 5, subject to the cash and time limits. The PCC will only invest with those counterparties recommended by Arlingclose and those that meet the required criteria outlined in this strategy.

4.7 **Minimum credit rating:** Treasury investments in the sectors marked with an asterisk in Table 5 will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made only where external advice indicates the entity to be of similar credit quality.

4.8 **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

4.9 **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

4.10 **Government:** Loans to, bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

4.11 **Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department of Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

4.12 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the PCC will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

4.13 **Strategic pooled funds:** Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the PCC to diversify into asset classes other than cash without the need to own and manage the underlying investments. As these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the PCC's investment objectives will be monitored regularly. Any such investment would require the explicit approval of the PCC.

4.14 **Operational bank accounts:** The PCC may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, therefore where the credit rating falls below A- balances will be kept below £1.250mn, otherwise the standard counterparty limit will apply.

Where unscheduled income is received after the counterparty investment cut off times, the balance may exceed £1.250mn. The Treasury team will advise the Treasurer accordingly and ensure that the balance is brought back down to below £1.250mn the next working day.

The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the PCC maintaining operational continuity.

4.15 **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the PCC's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

4.16 **Other information on the security of investments**: The PCC understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the PCC's treasury management advisor. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the PCC will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the PCC's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

4.17 **Investment limits**: The PCC's revenue reserves available to cover investment losses are forecast to be £8.746mn on 31 March 2023. The maximum that will be lent to any one organisation (other than the UK Government) is set out in Appendix 1 Table 5. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts and foreign countries. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries. Investment limits are shown in Appendix 1 Table 6.

4.18 **Liquidity management**: The PCC uses a purpose-built cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the PCC being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the PCC's medium term financial plan and cash flow forecast.

The PCC will spread its liquid cash over at least four providers to ensure that access to cash is maintained in the event of operational difficulties of any one provider.

4.19 Commercial Investments – Property: Seven properties were classed as investment properties as at 31 March 2022. When these properties were purchased, they were used as Police houses. These houses are now rented by local organisations and therefore are no longer operational assets. The netbook value of these properties was £2.106mn as at 31 March 2022 with an annual net income of £34k. The Commissioner has assessed the holding of these properties as low risk and if vacancies arise, the loss of income could be covered by the General reserve. At that point the properties would look to be sold, in order to generate a capital receipt. This could then be used to reduce future borrowing, and the associated revenue costs. The holding of these properties is a direct consequence of changes in use that have occurred rather than an investment decision targeted at achieving a return.

5.0 <u>2018 MHCLG Investment Guidance</u>

5.1 The contribution that Treasury Management Investments make to the objectives of the PCC is to support effective treasury management activities.

5.2 The statutory guidance issued by MHCLG in January 2018 requires authorities to report also on their investment strategy with regard to the following purposes:

- To support local public services by lending to or buying shares in other organisations (service investments), and
- To earn investment income (known as commercial investments where this is the main purpose)

5.3 The PCC does not have any current plans for any new service or commercial investments. Should these plans change in the future a full assessment will be made and an appropriate Investment Strategy Report will be prepared.

5.4 Financial guarantees are not strictly counted as investments, since no money has exchanged hands yet, but they do carry risks. The PCC, along with all other PCCs, provide a financial guarantee to the APCC pension fund held by Merseyside LGPS amounting to £21k. This would be covered within the General Fund Balance reserve.

6.0 Prudential Code Indicators

6.1 The Local Government Act 2003 requires the PCC to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of the PCC are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the PCC has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

(i) **Estimates of Capital Expenditure:** The PCC's planned capital expenditure and financing is shown in Table 7 in Appendix 2 as well as the **estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) (Table 8 in Appendix 2) measures the PCC's underlying need to borrow for a capital purpose.

(ii) **Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the PCC should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence which is shown in Appendix 2 Table 9.

(iii) **Operational Boundary for External Debt:** The operational boundary shown in Appendix 2 Table 10 is based on the PCC's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the PCC's estimates of capital expenditure, the capital financing requirement, finance leases, Private Finance Initiative, other liabilities and cash flow requirements, and is a key management tool for in-year monitoring.

(iv) **Authorised Limit for External Debt:** The authorised limit shown in Appendix 2 Table 11 is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the PCC can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

(v) **Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. This is shown in Appendix 2 Table 12.

7.0 Treasury Management Code Indicators

7.1 The PCC measures and manages its exposures to treasury management risks using the following indicators.

7.2 **Security:** The PCC has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	**Target**
Portfolio average credit rating	A+

7.3 **Liquidity:** Minimum limits are set for short term cash in order that sufficient liquidity is available to meet unexpected variation in the cash flow:

Liquidity risk indicator	**Target**
Minimum limit at less than 31 days duration	£3mn

7.4 **Interest rate exposures**: This indicator is set to control the PCC's exposure to interest rate risk. The upper limits on the one year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Limit**
Upper limit on 1 year revenue impact of a 1% rise in interest rates	(£200k)
Upper limit on 1 year revenue impact of a 1% fall in interest rates	£200k

The impact of a change to the variable interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

It should be noted that all forecast loan arrangements in place and those forecast have fixed interest rates and have been excluded from the calculations.

7.5 **Maturity structure of borrowing:** This indicator is set to control the PCC's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Refinancing rate risk indicator	Upper Limit	Lower Limit
Under 12 months	100%	0%
12 months and within 24 months	55%	0%
24 months and within 5 years	65%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

7.6 **Long-term treasury management investments:** The purpose of this indicator is to control the PCC's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term principal sum invested to final maturities beyond the period end will be:

Long term treasury management investments indicator	2023/24	2024/25	2025/26	No Fixed Date
Counterparty Limit on principal invested beyond year end	£3mn	£2.5mn	£2mn	£1.5mn

8.0 Other Items

8.1 The CIPFA Code requires the PCC to include the following in its Treasury Management Strategy.

8.2 **Financial derivatives:** In the absence of any explicit legal power to do so, the PCC will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

8.3 **Investment training:** The needs of the PCC's treasury management staff for training in investment management are assessed on an ongoing basis and as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff attend internal training courses and/or training courses, seminars and conferences provided by Arlingclose and CIPFA.

8.4 **Investment advisers:** The PCC has appointed Arlingclose Limited as treasury management advisers and receive specific advice on investment, debt and capital finance issues.

8.5 **Investment of money borrowed in advance of need**: The PCC may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the PCC is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the PCCs overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be three years, although the PCC is not required to link particular loans with particular items of expenditure.

8.6 The Minimum Revenue Provision (MRP) Policy Statement is shown in Appendix 4. MRP is an amount charged to the revenue budget for the repayment of debt. The Local Government Act 2003 requires the PCC to have regard to the MHCLG Guidance on Minimum Revenue Provision most recently issued in 2018.

9.0 Financial Implications

9.1 The budget for investment income in 2023/24 is £243k, based on an average investment portfolio of £8mn at an average interest rate of 3%. The budget for external debt interest payable in 2023/24 is £340k. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

10.0 Other Options Considered

10.1 The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Treasurer, having consulted the PCC believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are considered below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

11.0 Governance Arrangements

11.1 The Treasury Management governance arrangements are set out in Appendix 6.

Appendices

Appendix 1: Investment Strategy
Appendix 2: Prudential Indicators
Appendix 3: Budgets
Appendix 4: Minimum Revenue Provision Statement
Appendix 5: Economic Context
Appendix 6: Governance
Appendix 7: Glossary

INVESTMENT STRATEGY **Appendix 1**

Table 1: Existing Investment and Debt Portfolio Position

Actual Portfolio as at 31/03/2022	
	£'000
External Borrowing:	
Short-term borrowing	(13,000)
Total External Borrowing	(13,000)
Other Long-Term Liabilities:	
Private Finance Initiative	(22,415)
Other long term liabilities	(726)
Total Other Long-Term Liabilities	(23,141)
Finance Leases	
Finance lease liabilities	(42)
Total Finance Leases	(42)
Total Gross External Debt	**(36,183)**
Treasury Investments:	
Short-term investments	3,992
Cash and cash equivalents	8,489
Total Treasury Investments	**12,481**
Net Debt	**(23,702)**

Table 2: Balance Sheet Summary and Forecast

	31/03/2022	**31/03/2023**	**31/03/2024**	**31/03/2025**	**31/03/2026**	**31/03/2027**
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Total Capital Financing Requirement	**30,864**	**37,109**	**50,580**	**51,670**	**50,002**	**48,541**
Less: PFI	(22,414)	(20,360)	(18,305)	(16,333)	(14,706)	(13,208)
Less: Other Long Term Liabilities	(727)	(607)	(489)	(382)	(275)	(167)
Less: External Borrowing for Capital	0	(8,885)	(25,148)	(29,427)	(31,370)	(33,512)
Less: Finance Leases	(42)	(12)	0	(88)	(58)	(28)
Internal Borrowing	**7,681**	**7,245**	**6,638**	**5,440**	**3,593**	**1,626**
Adjust for: Balance Sheet Resources						
Usable Reserves	(11,921)	(9,061)	(8,150)	(6,799)	(6,694)	(6,789)
Short Term Borrowing	(13,000)	0	0	0	0	0
Working Capital	4,759	2,961	3,450	1,999	1,994	1,889
Total Funds	**(20,162)**	**(6,100)**	**(4,700)**	**(4,800)**	**(4,700)**	**(4,900)**
New borrowing or (Treasury investments)	**(12,481)**	**1,145**	**1,938**	**640**	**(1,107)**	**(3,274)**

INVESTMENT STRATEGY **Appendix 1**

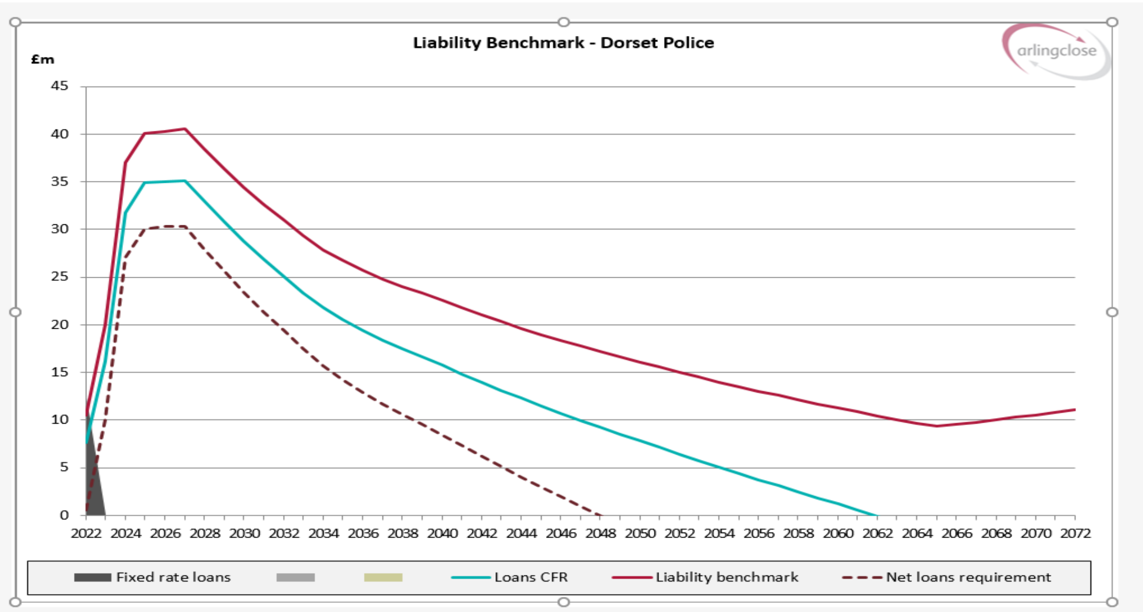
Table 3: Liability Benchmark

	31/03/2022	31/03/2023	31/03/2024	31/03/2025	31/03/2026	31/03/2027
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Total Capital Financing Requirement	**30,864**	**37,109**	**50,580**	**51,670**	**50,002**	**48,541**
Less: PFI	(22,414)	(20,360)	(18,305)	(16,333)	(14,706)	(13,208)
Less: Other Long Term Liabilities	(727)	(607)	(489)	(382)	(275)	(167)
Less: Finance Leases	(42)	(12)	0	(88)	(58)	(28)
Less: Short Term Borrowing for Cashflow	(13,000)	0	0	0	0	0
Borrowing	**(5,319)**	**16,131**	**31,786**	**34,867**	**34,964**	**35,137**
Less: Balance Sheet Resources	(7,162)	(6,100)	(4,700)	(4,800)	(4,700)	(4,900)
(Investments)/Borrowing	**(12,481)**	**10,031**	**27,086**	**30,067**	**30,264**	**30,237**

(Investments)/Borrowing	**(12,481)**	**10,031**	**27,086**	**30,067**	**30,264**	**30,237**
Plus: Liquidity Allowance	12,481	10,000	10,000	10,000	10,000	10,300
Total Borrowing Requirement	**0**	**20,031**	**37,086**	**40,067**	**40,264**	**40,537**

Net Loans Requirement (Investment less External Borrowing)	519	10,031	27,086	30,067	30,264	30,237
Plus: Liquidity Allowance	10,000	10,000	10,000	10,000	10,000	10,300
Liability Benchmark	**10,519**	**20,031**	**37,086**	**40,067**	**40,264**	**40,537**

Table 4:



INVESTMENT STRATEGY **Appendix 1**

Table 5: Treasury Investment Counterparties and Limits

Sector	Time Limit	Counterparty Limit	Sector Limit
The UK Government	3 years	Unlimited	n/a
Local Authorities and Other Government Entities	3 years	£3mn	Unlimited
Secured Investments*	3 years	£3mn	Unlimited
Banks (unsecured)*	13 months	£1.5mn	Unlimited
Building Societies (unsecured)*	13 months	£1.5mn	£3m
Registered Providers (unsecured)*	3 years	£1.5mn	£3m
Money Market Funds (including Cash Plus Funds)*	n/a	£3mn	Unlimited
Strategic Pooled Funds**	n/a	£3mn	£4.7m

*Please refer to the section on minimum credit rating.

**This sector limit is in line with the minimum level of reserves.

Table 6: Additional Investment Limits

	Cash Limit
Any group of Strategic Pooled Funds under the same management	£3mn per manager
Negotiable instruments held in a broker's nominee account	£7.5mn per broker
Foreign countries	£3mn per country

PRUDENTIAL INDICATORS **Appendix 2**

Table 7: Estimates of Capital Expenditure

	2021/22 Actual £'000	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Total Expenditure	**4,907**	**13,564**	**20,574**	**8,652**	**7,193**	**7,363**
Capital Grants	719	265	23	0	0	0
Capital Receipts	0	756	0	0	0	0
Earmarked Reserves	0	0	0	0	0	0
Revenue Contribution to Capital	2,523	3,658	3,788	3,873	4,750	4,721
Borrowing	1,665	8,885	16,763	4,779	2,443	2,642
Total Financing	**4,907**	**13,564**	**20,574**	**8,652**	**7,193**	**7,363**

Table 8: Estimates of Capital Financing Requirement

	2021/22 Actual £'000	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Opening CFR	**29,803**	**30,864**	**37,109**	**50,580**	**51,670**	**50,002**
Capital expenditure to be funded by borrowing	1,665	8,885	16,763	4,779	2,443	2,642
Capital expenditure to be funded by PFI	2,482	507	630	868	1,394	1,269
Finance Leases	0	0	0	118	0	0
Less: Minimum Revenue Provision	(216)	(435)	(607)	(1,198)	(1,847)	(1,968)
Less: External Borrowing Repayment	0	0	(500)	(500)	(500)	(500)
Less: PFI Repayment	(2,720)	(2,563)	(2,685)	(2,840)	(3,021)	(2,767)
Less: Other Long Term Liabilities Repayment	(120)	(119)	(118)	(107)	(107)	(107)
Less: Finance Leases Repayment	(30)	(30)	(12)	(30)	(30)	(30)
Closing CFR	**30,864**	**37,109**	**50,580**	**51,670**	**50,002**	**48,541**

PRUDENTIAL INDICATORS **Appendix 2**

Table 9: Gross Debt and the Capital Financing Requirement

	2021/22 Actual £'000	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
PFI	22,414	20,360	18,305	16,333	14,706	13,208
Other Long Term Liabilities	727	607	489	382	275	167
External Borrowing	0	8,885	25,148	29,427	31,370	33,512
Finance Leases	42	12	0	88	58	28
Gross Debt	**23,183**	**29,864**	**43,942**	**46,230**	**46,409**	**46,915**
Internal Borrowing	7,681	7,245	6,638	5,440	3,593	1,626
Capital Financing Requirement	**30,864**	**37,109**	**50,580**	**51,670**	**50,002**	**48,541**

Table 10: Operational Boundary for External Debt

Operational Boundary	2021/22 Actual £'000	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
PFI	22,414	20,360	18,305	16,333	14,706	13,208
Other Long Term Liabilities	727	607	489	382	275	167
External Borrowing	0	8,885	25,148	29,427	31,370	33,512
Finance Leases	42	12	0	88	58	28
Maximum forecast cashflow deficit arising from revenue budget operations	15,000	20,000	20,000	20,000	20,000	20,000
Total Operational Boundary	**38,183**	**49,864**	**63,942**	**66,230**	**66,409**	**66,915**

Table 11: Authorised Limit for External Debt

Authorised Limit	2021/22 Actual £'000	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Total Operational Boundary Debt	38,183	49,864	63,942	66,230	66,409	66,915
Additional margin for unforeseen circumstances/capital receipt	5,000	5,000	5,000	5,000	5,000	5,000
Total Authorised Limit	**43,183**	**54,864**	**68,942**	**71,230**	**71,409**	**71,915**

PRUDENTIAL INDICATORS **Appendix 2**

Table 12: Ratio of Financing Costs to Net Revenue Stream

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
Ratio of Financing Costs to Net Revenue Stream	0.15%	0.31%	0.59%	1.28%	1.69%	1.73%

BUDGETS **Appendix 3**

Table 13: Budget

	2023/24 Budget £'000
Interest Income	(243)
Interest Payments	340

MINIMUM REVENUE PROVISION **Appendix 4**

Annual Minimum Revenue Provision Statement 2023/24

Where the PCC finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the PCC to have regard to the former Ministry of Housing, Communities and Local Government's (MHCLG) Guidance on Minimum Revenue Provision most recently issued in 2018. The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits.

The MHCLG Guidance requires the PCC to approve an Annual MRP Statement each year, and provides four options for calculating an amount to put aside to revenue over time to cover the CFR i.e. the MRP. The PCC has opted for option 3; the Asset Life Method. The Asset Life Method determines that MRP is calculated on the basis of charging the unfinanced capital expenditure over the expected useful life of the relevant assets based on either an equal instalment method or an annuity method. The PCC has opted for the equal instalment method. This method will be reviewed to ensure its continued suitability. This is applied from the year after the asset becomes operational. For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

The PCC can choose to make more MRP than considered the prudent minimum. The maximum asset life used in MRP calculations is 50 years, unless a longer life is certified by an appropriately qualified professional adviser, or the asset has been acquired on a lease of longer than 50 years. For those assets purchased before 1st April 2018 that have an asset life of more than 50 years, the Code does not require a retrospective adjustment.

Based on the PCC's latest estimate of its Capital Financing Requirement on 31 March 2023, the budget for MRP has been set as follows:

	2023/24 Estimated CFR	2023/24 Estimated MRP
	£'000	£'000
Unsupported capital expenditure after 31.03.2008	50,080	3,422

ECONOMIC CONTEXT **Appendix 5**

Arlingclose Economic Context as of November 2022

Economic background: The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the treasury management strategy for 2023/24.

The Bank of England (BoE) increased Bank Rate by 0.75% to 3.0% in November 2022, the largest single rate hike since 1989 and the eighth successive rise since December 2021. The decision was voted for by a 7-2 majority of the Monetary Policy Committee (MPC), with one of the two dissenters voting for a 0.50% rise and the other for just a 0.25% rise.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

The UK economy grew by 0.2% between April and June 2022, but the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

CPI inflation is expected to peak at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets with a peak of 5.25%. However, the BoE has stated it considers this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target.

The labour market remains tight for now, with the most recent statistics showing the unemployment rate fell to 3.5%, driven mostly by a shrinking labour force. Earnings were up strongly in nominal terms by 6% for total pay and 5.4% for regular pay but factoring in inflation means real total pay was -2.4% and regular pay -2.9%. Looking forward, the MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.75% in November 2022 to 3.75%-4.0%. This was the fourth successive 0.75% rise in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 8%. GDP grew at an annualised rate of 2.6% between July and September 2022, a better-than-expected rise, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

Inflation has been rising consistently in the Euro Zone since the start of the year, hitting an annual rate of 10.7% in October 2022. Economic growth has been weakening with an expansion of just 0.2% in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.75% in October, the third major increase in a row, taking its main refinancing rate to 2% and deposit facility rate to 1.5%.

Credit outlook: Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic. CDS price volatility has been higher in 2022 compared to 2021 and this year has seen a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

However, the institutions on the Arlingclose's counterparty list remain well-capitalised and the counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast: The PCC's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.6%, 3.7%, and 3.9% respectively over the 3-year period to September 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Underlying assumptions:

- UK interest rate expectations have eased following the mini-budget, with a growing expectation that UK fiscal policy will now be tightened to restore investor confidence, adding to the pressure on household finances. The peak for UK interest rates will therefore be lower, although the path for interest rates and gilt yields remains highly uncertain.
- Globally, economic growth is slowing as inflation and tighter monetary policy depress activity. Inflation, however, continues to run hot, raising expectations that policymakers, particularly in the US, will err on the side of caution, continue to increase rates and tighten economies into recession.
- The new Chancellor dismantled the mini-budget, calming bond markets and broadly removing the premium evident since the first Tory leadership election. Support for retail energy bills will be less generous, causing a lower but more prolonged peak in inflation. This will have ramifications for both growth and inflation expectations.
- The UK economy is already experiencing recessionary conditions, with business activity and household spending falling. Tighter monetary and fiscal policy, alongside high inflation will bear down on household disposable income. The short- to medium-term outlook for the UK economy is bleak, with the BoE projecting a protracted recession.
- Demand for labour remains strong, although there are some signs of easing. The decline in the active workforce has fed through into higher wage growth, which could prolong higher inflation. The development of the UK labour market will be a key influence on MPC decisions. It is difficult to see labour market strength remaining given the current economic outlook.
- Global bond yields have steadied somewhat as attention turns towards a possible turning point in US monetary policy. Stubborn US inflation and strong labour markets mean that the Federal Reserve remains hawkish, creating inflationary risks for other central banks breaking ranks.
- However, in a departure from Fed and ECB policy, in November the BoE attempted to explicitly talk down interest rate expectations, underlining the damage current market expectations will do to the UK economy, and the probable resulting inflation undershoot in the medium term. This did not stop the Governor affirming that there will be further rises in Bank Rate.

ECONOMIC CONTEXT **Appendix 5**

Forecast:

- The MPC remains concerned about inflation but sees the path for Bank Rate to be below that priced into markets.
- Following the exceptional 75bp rise in November, Arlingclose believes the MPC will slow the rate of increase at the next few meetings. Arlingclose now expects Bank Rate to peak at 4.25%, with a further 50bp rise in December and smaller rises in 2023.
- The UK economy likely entered into recession in Q3, which will continue for some time. Once inflation has fallen from the peak, the MPC will cut Bank Rate.
- Arlingclose expects gilt yields to remain broadly steady despite the MPC's attempt to push down on interest rate expectations. Without a weakening in the inflation outlook, investors will price in higher inflation expectations given signs of a softer monetary policy stance.
- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales will maintain yields at a higher level than would otherwise be the case.

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.90	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.75	3.75	3.75
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.36	3.65	3.90	3.90	3.90	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.70	3.75	3.75	3.75	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.88	4.00	4.00	4.00	4.00	4.00	3.90	3.90	3.90	3.90	3.90	3.90	3.90
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.24	3.40	3.40	3.40	3.40	3.40	3.30	3.30	3.30	3.30	3.30	3.30	3.30
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

GOVERNANCE **Appendix 6**

Treasury Management Governance Arrangements

The PCC is responsible for:

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.
- approval of/amendments to the treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

The Independent Audit Committee is responsible for:

- scrutinising the treasury management policy and procedures and making recommendations to the PCC.

The Treasurer is responsible for:

- 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.

GLOSSARY **Appendix 7**

Annuity	A method of repaying a loan where the cash payment remains constant over the life of the loan, but the proportion of interest reduces and the proportion of principal repayment increases over time. Repayment mortgages and personal loans tend to be repaid by the annuity method.
Authorised limit	The maximum amount of *debt* that a local authority may legally hold, set annually in advance by the authority itself. One of the *Prudential Indicators*.
Bail-in	A method of rescuing a failing *financial institution* by cancelling some of its *deposits* and *bonds*. Investors may suffer a *haircut* but may be given *shares* in the bank as part compensation.
Bank	Regulated firm that provides financial services to customers. But see also *Bank of England*.
Bank of England	The *central bank* of the UK, based in London, sometimes just called “the Bank”. See also *Monetary Policy Committee.*
Bank Rate	The official interest rate set by the *Monetary Policy Committee*, and the rate of interest paid by the *Bank of England* on commercial bank deposits. Colloquially termed the “base rate”.
Bid	A bid to buy a *security* at a certain price (the bid price), or a bid to borrow money at a certain interest rate (the bid rate).
Bill	A certificate of *short-term* debt issued by a company, government, or other institution, which is tradable on financial markets
Bond	A certificate of *long-term* debt issued by a company, government, or other institution, which is tradable on financial markets.
Borrowing	Usually refers to the stock of outstanding loans owed and *bonds* issued.
Broker	Regulated firm that matches either borrowers and lenders (a money broker) or buyers and sellers of *securities* (a stockbroker) with each other in order to facilitate transactions.
Building society	A mutual organisation that performs similar functions to a *retail bank* but is owned by its customers.
Capital	**(1)** Long-term, as in *capital expenditure* and *capital receipt.* **(2)** Principal, as in *capital gain* and capital value. **(3)** Investments in *financial institutions* that will absorb losses before *senior unsecured creditors.*
Capital expenditure	Expenditure on the acquisition, creation or enhancement of fixed assets that are expected to provide value for longer than one year, such as property and equipment, plus expenditure defined as capital in legislation such as the purchase of certain investments.
Capital finance	Arranging and managing the cash required to finance *capital expenditure*, and the associated accounting.
Capital financing requirement (CFR)	A local authority’s underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with *capital expenditure* and decreases with *capital finance* and *MRP*.
Capital markets	The markets for long-term finance, including *bonds* and *shares*. See also *money markets*.

GLOSSARY **Appendix 7**

Capital receipt	Cash obtained from the sale of an item whose purchase would be *capital expenditure*. The law only allows local authorities to spend capital receipts on certain items, such as new capital expenditure. They are therefore held in a capital receipts reserve until spent.
Cash plus fund	A *pooled fund is* similar to a *money market fund* but with a *WAM* up to around six months.
Central bank	A government agency responsible for setting interest rates, regulating banks and maintaining financial stability.
Certificate of deposit (CD)	A short-term *debt* instrument, similar to a *deposit*, but that is tradable on the *money markets*.
CIPFA	The Chartered Institute of Public Finance and Accountancy - the professional body for accountants working in the public sector. CIPFA also sets various standards for local government.
Commercial investment	An investment whose main purpose is generating income, such as *investment property*.
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.
Counterparty limit	The maximum amount an investor is willing to lend to a *counterparty*, in order to manage *credit risk*.
Covered bond	*Bond* issued by a *financial institution* that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds. Covered bonds are exempt from *bail-in*.
CPI	Consumer Price Index - the measure of inflation targeted by the *Monetary Policy Committee*, measured on a harmonised basis across the European Union.
Credit default swap (CDS)	*Derivative* for swapping *credit risk* on a particular issuer, similar to an insurance policy where the buyer pays a *premium* against the risk of default. Also used as an indicator of credit risk: the higher the premium, the higher the perceived risk.
Credit rating	Formal opinion by a *credit rating agency* of a *counterparty*'s future ability to meet its financial obligations. As it is only an opinion, there is no guarantee that a highly rated organisation will not default.
Credit rating agency	An organisation that publishes *credit ratings*. The three largest agencies are Fitch, Moody's and Standard & Poor's but there are many smaller ones.
Credit risk	The risk that a *counterparty* will *default* on its financial obligations.
Debt	**(1)** A contract where one party owes money to another party, such as a *loan*, *deposit* or *bond*. Contrast with *equity*. **(2)** In the *Prudential Code*, the total outstanding *borrowing* plus *other long-term liabilities.*
Default	Failure to meet an obligation under a debt contract, including the repayment of cash or compliance with a *covenant*, usually as a result of being in financial difficulty (rather than an administrative oversight).

GLOSSARY **Appendix 7**

Deflation	Negative inflation, which central banks are keen to avoid since households tend to delay spending waiting for prices to fall further, leading to further deflation.
Deposit	A regulated placing of cash with a *financial institution*. Deposits are not tradable on financial markets.
Derivative	Financial instrument whose value is derived from an underlying instrument or index, such as a *swap*, *option* or *future*. Derivatives can be used to gain exposure to, or to help protect against, changes in the value of the underlying.
Discount	**(1)** The amount that the early repayment cost of a loan is below its principal, or the price of a bond is below its nominal value. **(2)** To calculate the *present value* of an investment taking account of the time value of money.
Diversification	The spreading of risk across a variety of exposures in order to reduce the risk. For example, investing in a range of *counterparties* to limit *credit risk* or borrowing to a range of *maturity* dates to limit *refinancing risk*.
Duration	In relation to a *bond* or *bond fund*, the weighted average time of the future cash flows from today, usually expressed in years. The longer the duration, the more the price moves for a given change in interest rates.
ECB	European Central Bank – the *central bank* of the Eurozone, based in Frankfurt, Germany.
Embedded derivative	A *derivative* that is combined into another financial instrument, such as the *options* embedded in a *LOBO*.
Equity	**(1)** The residual value of an entity's assets after deducting its liabilities. **(2)** An investment in the residual value of an entity, for example ordinary shares.
Fair value	*IFRS* term for the price that would be obtained by selling an investment, or paid to transfer debt, in a market transaction.
Federal Reserve	The *central bank* of the USA, often just called "the Fed".
Financial instrument	*IFRS* term for investments, borrowing and other cash payable and receivable.
Financing costs	In the *Prudential Code*, interest payable on *debt* less investment income plus *premiums* less *discounts* plus *MRP*.
Future	A *derivative* whose payments depend on the future value of a variable.
Fund manager	Regulated firm that manages *pooled funds*.
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
General Fund	A local authority reserve that holds the accumulated surplus or deficit on revenue income and expenditure, except on council housing.
Gilt	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
Gilt yield	*Yield* on *gilts*. Commonly used as a measure of risk-free long-term interest rates in the UK.
Guarantee	An arrangement where a third party agrees to pay the contractual payments on a *loan* to the lender if the borrower *defaults*.

GLOSSARY **Appendix 7**

IFRS	International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010.
Impairment	A reduction in the value of an investment caused by the *counterparty* being in financial difficulty.
Interest	Compensation for the use of cash paid by borrowers to lenders on *debt* instruments.
Interest rate risk	The risk that unexpected changes in interest rates cause an unplanned loss, for example by increased payments on borrowing or lower income on investments.
Internal borrowing	A local government term for when actual "external" *debt* is below the *capital financing requirement*, indicating that difference has been borrowed from internal resources instead; in reality this is not a form of borrowing.
Investment guidance	Statutory guidance issued by MHCLG and the devolved governments on local government investments. Local authorities are required by law to have regard to the relevant investment guidance.
Investment strategy	A document required by *investment guidance* that sets out a local authority's investment plans and parameters for the coming year. Sometimes forms part of the authority's *treasury management strategy*.
Lease	A contract where one party permits another to make use of an asset in return for a series of payments. It is economically similar to buying the asset and borrowing a loan, and therefore leases are often counted as a type of *debt*.
Liability benchmark	Term in CIPFA's Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level. Used to compare against the actual and forecast level of borrowing.
Loan	Contract where the lender provides a sum of money (the *principal*) to a borrower, who agrees to repay it in the future together with *interest*. Loans are not normally tradable on financial markets. There are specific definitions in government *investment guidance*.
Long-term	Usually means longer than one year.
Maturity	**(1)** The date when an investment or borrowing is scheduled to be repaid. **(2)** A type of loan where the principal is only repaid on the maturity date.
MHCLG	Ministry of Housing, Communities and Local Government – the central government department that oversees local authorities in England.
Monetary policy	Measures taken by *central banks* to boost or slow the economy, usually via changes in interest rates. Monetary easing refers to cuts in interest rates, making it cheaper for households and businesses to borrow and hence spend more, boosting the economy, while monetary tightening refers to the opposite.
Monetary Policy Committee (MPC)	Committee of the *Bank of England* responsible for implementing *monetary policy* in the UK by changing *Bank Rate* and *quantitative easing* with the aim of keeping *CPI* inflation at around 2%.
Money market fund (MMF)	A *pooled fund* which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to *CNAV* and *LVNAV* funds with a *WAM* under 60 days which offer instant access, but the European Union definition extends to include *cash plus funds*.
Money markets	The markets for short-term finance, including *deposits* and *T-bills*.

GLOSSARY **Appendix 7**

MRP	Minimum revenue provision **- a**n annual amount that local authorities are required to set aside and charge to revenue for the repayment of debt associated with capital expenditure. Local authorities are required by law to have regard to government guidance on MRP.
Municipal bond	*Bond* issued or guaranteed by local authorities.
Municipal bonds agency	Company that issues *bonds* in the *capital market* and lends the proceeds back to local authorities. The bonds are guaranteed by the local authorities.
Net borrowing	*Borrowing* minus *treasury investments*.
Net revenue stream	In the *Prudential Code*, income from general government grants, Council Tax and rates.
Notice account	A *deposit* account where the cash can be called back after a given notice period.
Other long-term liabilities	*Prudential Code* term for *credit arrangements*.
Operational boundary	A *prudential indicator* showing the most likely, prudent, estimated level of external *debt*, but not the worst-case scenario. Regular breaches of the operational boundary should prompt management action.
Option	A *derivative* where the holder pays a *premium* to have the right, but not the obligation, to buy or sell a security or enter into a defined transaction.
Outlook	A *credit rating agency's* expected direction of travel in the *long-term rating* over the next two years.
Pension Fund	Ringfenced account for the income, expenditure and investments of the local government pension scheme. Pension fund investments are not considered to be part of *treasury management*.
Pooled fund	Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
Premium	**(1)** The amount that the early repayment cost of a loan is above the principal, or the price of a bond is above its nominal value. **(2)** The initial payment made under a *derivative*.
Principal	The amount of money originally lent on a *debt* instrument.
Private Finance Initiative (PFI)	A government scheme where a private company designs, builds, finances and operates assets on behalf of the public sector, in exchange for a series of payments, typically over 30 years. Counts as a *credit arrangement* and *debt.*
Property fund	A *pooled fund* that mainly invests in property. Due to the costs of buying and selling property, including *stamp duty land tax*, there is usually a significant fee charged on initial investment, or a significant difference between the *bid* and *offer* price.
Prudential Code	Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice. Local authorities are required by law to have regard to the Prudential Code.
Prudential indicators	Indicators required by the *Prudential Code* and determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable.

GLOSSARY **Appendix 7**

PWLB	Public Works Loans Board - a statutory body operating within the *DMO* that lends money from the National Loans Fund to local authorities and other prescribed bodies and collects the repayments. Not available in Northern Ireland.
Redemption	The process of withdrawing cash from a *pooled fund* and cancelling the units of shares. Redemptions can be suspended in certain circumstances detailed in the *prospectus*.
Refinancing risk	The risk that maturing loans cannot, be refinanced, or only at higher than expected interest rates leading to an unplanned loss. Managed by maintaining a smooth *maturity profile*.
Registered Provider of Social Housing (RP)	An organisation that is registered to provide social housing, such as a housing association. Also known as a registered social landlord or RSL.
Sector limit	The maximum amount an investor is willing to lend to all *counterparties* in a particular industry sector, in order to manage *credit risk*.
Security	**(1)** A *financial instrument* that can be traded on a *secondary market.* **(2)** The concept of low *credit risk.* **(3)** *Collateral.*
Secured investment	An investment that is backed by *collateral* and is therefore normally lower *credit risk* and lower yielding than an equivalent unsecured investment.
Service investments	Investments made to promote a local authority's public service objectives, for example a *loan* to a local charity or *shares* in a local company.
Share	An *equity* investment, which usually also confers ownership and voting rights.
Short-term	Usually means less than one year.
Swap	A *derivative* where the *counterparties* exchange cash flows, for example fixed rate interest and variable rate interest.
Total return	The overall return on an investment, including *interest*, *dividends*, *rent*, fees and *capital gains and losses*.
Treasury bill	Treasury bill - a *bill* issued by a government.
Treasury investments	Investments made for *treasury management* purposes, as opposed to *commercial investments* and *service investments*.
Usable reserves	Resources available to finance future *revenue* and/or *capital expenditure.* Some usable reserves are ringfenced by law for certain expenditure such as on schools or council housing.
Volatility	A measure of the variability of a price or index, usually expressed as the annualised standard deviation.
Working capital	The cash surplus or deficit arising from the timing differences between income/expenditure in accounting terms and receipts/payments in cash terms.
Yield	A measure of the return on an investment, especially a *bond*. The yield on a fixed rate bond moves inversely with its price.

DORSET
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DAVID SIDWICK

CAPITAL STRATEGY

2023/24

CAPITAL STRATEGY 2023/24

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DORSET POLICE & CRIME COMMISSIONER DAVID SIDWICK

CAPITAL STRATEGY 2023/24

1.0 Introduction

1.1. This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.2. It addresses the capital components of the wider financial strategies adopted by the Police and Crime Commissioner (PCC). It identifies the links and relationships that need to be made in considering and implementing the Capital Programme to support the Police and Crime Plan priorities. This is done through the Medium Term Financial Plan (MTFP) which sets out the governance and control framework within which the investment planning and delivery takes place.

1.3. Decisions made this year on capital and treasury management will have financial consequences for the PCC for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report. The Prudential Code and the Treasury Management Code were both reviewed in 2021 and this Strategy complies with the requirements of the new code.

2.0 Capital Expenditure and Financing

2.1. The Capital expenditure is where the PCC spends money on assets, such as property or vehicles, that will be used for more than one year.

2.2. In 2023/24, the PCC is planning capital expenditure of £20.574mn as summarised in Table 1 below:

Table 1: Prudential Indicator: Actual and Estimates of Capital Expenditure

	2021/22 Actual £'000	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Capital Programme						
Vehicles Replacements	695	1,179	1,203	983	871	1,105
ICT	1,404	3,797	3,737	2,842	2,227	2,724
Estates	2,236	7,395	15,123	4,403	2,820	2,805
Other Capital	339	1,193	511	424	1,275	729
REFCUS	233	0	0	0	0	0
Total Capital Programme*	**4,907**	**13,564**	**20,574**	**8,652**	**7,193**	**7,363**

*The figures exclude the impact of IFRS16 as the adoption of this standard relates to a change in accounting treatment and does not represent cash expenditure.

2.3. A significant number of projects within the capital programme are recurring such as the Vehicle Replacement Programme, IT infrastructure, and estates projects. This is important when considering the funding of the programme. The main 'one off' capital projects include the PRISM programme of IT system improvements (£2.274mn over the MTFP period) and the Futures Programme of £21.055mn over the MTFP period. The PCC has no plans to incur capital expenditure on investments.

DORSET POLICE & CRIME COMMISSIONER DAVID SIDWICK

CAPITAL STRATEGY 2023/24

2.4. **Governance**: Budget holders prepare business cases to include new projects in the capital programme. The business cases are reviewed by Finance who confirm the financing cost and revenue impacts. The business case must be considered by the relevant operational board to confirm their support and links to the PCC priorities before the Capital Strategy Group considers the bids for inclusion within the programme. The Capital Strategy Group considers the financing costs as well as the timing and overall affordability and will make recommendations to the Resource Control Board. The final capital programme is then presented to the PCC for approval in February each year. Once approved, the capital programme is then monitored by the Capital Strategy Group and Resource Control Board on a quarterly basis.

2.5. All capital expenditure must be financed, either from external sources (grants and other contributions), own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is shown in Table 2 below:

Table 2: Capital Financing

	2021/22 Actual £'000	**2022/23 Forecast £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**	**2025/26 Estimate £'000**	**2026/27 Estimate £'000**
<u>Funding</u>						
Grant	719	265	23	0	0	0
Capital Receipts	0	756	0	0	0	0
Earmarked Reserves	0	0	0	0	0	0
Revenue Contribution to Capital	2,523	3,658	3,788	3,873	4,750	4,721
Borrowing	1,665	8,885	16,763	4,779	2,443	2,642
Total Funding*	**4,907**	**13,564**	**20,574**	**8,652**	**7,193**	**7,363**

*The figures exclude the impact of IFRS16 as the adoption of this standard relates to a change in accounting treatment and does not represent cash expenditure.

2.6. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Planned MRP budgets are shown in Table 3 below:

Table 3: Replacement of prior years' debt finance

	2021/22 Actual £'000	**2022/23 Forecast £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**	**2025/26 Estimate £'000**	**2026/27 Estimate £'000**
Minimum Revenue Provision	**216**	**435**	**607**	**1,198**	**1,847**	**1,968**

2.7. The PCC's full minimum revenue provision statement can be found in the Treasury Management Strategy.

2.8. The borrowing strategy is set out in the annual Treasury Management Strategy. Whilst borrowing is an important funding source, the revenue implications can be significant for shorter life assets. Therefore, the aspiration is to move to a position where borrowing is only used to fund assets with a life of more than 15 years.

2.9. The PCC's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £13.471mn during 2023/24. Based on the above figures for expenditure and financing, the PCC's estimated CFR is shown in Table 4 below:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	2021/22 Actual £'000	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Total CFR	**30,864**	**37,109**	**50,580**	**51,670**	**50,002**	**48,541**

*The figures exclude the impact of IFRS16 as the adoption of this standard relates to a change in accounting treatment and does not represent cash expenditure.

2.10. **Asset management:** To ensure that capital assets continue to be of long-term use, the Force has an asset management strategy in place. This sets out how the Force will manage the estate going forward.

2.11. **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. All disposals of surplus land and buildings must be approved by the PCC. When making any decision to dispose of assets the PCC must have regard to the right of the Chief Constable to have unfettered access to operational assets. The PCC shall consult with the relevant governance board and notify the Chief Constable. The PCC will have regard to the views expressed by the relevant governance board and the Chief Constable, but the final decisions will be a matter for the PCC. There are no new plans to generate capital receipts in the coming financial year.

3.0 Treasury Management

3.1. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the PCC's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

3.2. Due to decisions taken in the past, the PCC held £22.415mn of Private Finance Initiative (PFI) loans, £0.726mn of other long term loans, £13mn short term borrowing with Local Authorities and finance leases of £42,000 as at 31 March 2022. The PCC also held treasury investments totalling £12.481mn as at 31 March 2022. The PCC continues to maximise the use of the cash held before taking costly external debt, this is referred to as internal borrowing. It is anticipated the level of internal borrowing at 31/03/2023 will be £7.245mn.

3.3. **Borrowing strategy:** The main objective when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting, and the PCC therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.

3.4. The PCC does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

3.5. Projected levels of the PCC's total outstanding debt (which comprises borrowing, PFI liabilities and leases) are shown in Table 6 below, compared with the capital financing requirement.

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31/03/2022 Actual £'000	31/03/2023 Forecast £'000	31/03/2024 Estimate £'000	31/03/2025 Estimate £'000	31/03/2026 Estimate £'000	31/03/2027 Estimate £'000
Debt incl. PFI & Leases	23,183	29,864	43,942	46,230	46,409	46,915
CFR	30,864	37,109	50,580	51,670	50,002	48,541

3.6. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen in table 6, the PCC expects to comply with this in the medium term.

3.7. **Liability benchmark:** To compare the PCC's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end. This benchmark is currently £10.519mn and is forecast to rise to £40.537mn over five years as shown in Table 7.

Table 7: Borrowing and the Liability Benchmark

	31/03/2022 Actual £'000	31/03/2023 Forecast £'000	31/03/2024 Estimate £'000	31/03/2025 Estimate £'000	31/03/2026 Estimate £'000	31/03/2027 Estimate £'000
Borrowing	(5,319)	16,131	31,786	34,867	34,964	35,137
Liability Benchmark	10,519	20,031	37,086	40,067	40,264	40,537

3.8. Table 7 shows that the PCC expects to borrow over the MTFP period to fund the capital programme and to cover fluctuations in cashflow.

3.9. **Affordable borrowing limit:** The PCC is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt). In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt

	2021/22 Limit £'000	2022/23 Limit £'000	2023/24 Limit £'000	2024/25 Limit £'000	2025/26 Limit £'000	2026/27 Limit £'000
Operational Boundary	38,183	49,864	63,942	66,230	66,409	66,915
Authorised Limit	43,183	54,864	68,942	71,230	71,409	71,915

3.10. Further details on borrowing can be found in the Treasury Management Strategy.

3.11. **Treasury investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

3.12. The PCC's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer term is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy, and the PCC may request its money back at short notice.

Table 9: Treasury management investments

	31/03/2022 Actual £'000	31/03/2023 Forecast £'000	31/03/2024 Estimate £'000	31/03/2025 Estimate £'000	31/03/2026 Estimate £'000	31/03/2027 Estimate £'000
Investments	12,481	(1,145)	(1,938)	(640)	1,107	3,274

3.13. Further details on investments and prudential indicators can be found in the treasury management strategy.

3.14. **Risk management:** The effective management and control of risk are prime objectives of the PCC's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses.

3.15. **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Treasurer and Treasury team, who must act in line with the Treasury Management Strategy approved by the PCC. Quarterly reports on treasury management activity are presented to the Resource Control Board. The Independent Audit Committee also consider the quarterly reports.

4.0 Investments for Service Purposes

4.1. The PCC could make investments to assist local policing services, however they do not currently hold any such investments.

5.0 Commercial Activities

5.1. The PCC does not invest in commercial property however there are a number of former police houses which are now classified as investment properties as they no longer have an operational function. These properties are currently valued at £2.106mn comprising of 7 properties providing a net return after all costs of 1.62%.

5.2. **Risk management:** There are additional risks with commercial investments than with treasury investments. The principal risk exposures include vacancies at the end of tenancies and a reduction in capital value. The risk of vacancies is mitigated by the intention to sell the properties once vacant possession has been achieved thereby generating a capital receipt and reducing future borrowing and associated revenue costs. No further commercial investments are anticipated.

5.3. **Governance:** Day to day decisions on investment properties are made by the Head of Estates in consultation with the Treasurer. Any decision to sell would be made by the PCC.

Table 10: Prudential Indicator: Net income from commercial investments to net revenue stream

	2021/22 Limit £'000	2022/23 Limit £'000	2023/24 Limit £'000	2024/25 Limit £'000	2025/26 Limit £'000	2026/27 Limit £'000
Net Income	(34)	(35)	(36)	(37)	(38)	(39)
Proportion of net revenue stream	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%

6.0 Liabilities

6.1. In addition to debt detailed above, the PCC is committed to making future payments to cover its pension fund deficit (31 March 2022 valuation of £141mn). It has also set aside £1.391mn to cover provisions. The PCC is also at risk of having to pay for: a £21,000 APCC pension guarantee; and compensation claims regarding the public service pension scheme reform. No funds have been put aside for these liabilities because it is not probable that an outflow of resources is required for the guarantee. This also applies to the compensation claims but in addition the obligation cannot be measured reliably. Therefore, these liabilities have been shown as contingent liabilities in the 2021/22 accounts.

6.2. **Governance:** Decisions on incurring new discretional liabilities are taken by the PCC in consultation with Treasurer and Director of Finance where relevant. The risk of liabilities crystallising and requiring payment is monitored by the PCC, Chief Executive and Treasurer and reported quarterly to Resource Control Board.

6.3. Further details on the liabilities and guarantees can be found in the 2021/22 Statement of Accounts.

7.0 Revenue Budget Implications

7.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax and general government grants.

Table 11: Prudential Indicator: Proportion of financing costs to net revenue stream

	2021/22 Actual £'000	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Financing Costs	216	495	948	2,135	2,905	3,066
Proportion of net revenue stream	0.15%	0.31%	0.59%	1.28%	1.69%	1.73%

*The figures exclude the impact of IFRS16 as the adoption of this standard relates to a change in accounting treatment and does not represent cash expenditure.

7.2 Further details on the revenue implications of capital expenditure can be found in the MTFP.

7.3 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 40 years into the future. The Treasurer and Director of Finance are satisfied that the proposed capital programme is prudent, affordable and sustainable following the detailed review of the programme at the Capital Strategy Group and the development of the MTFP including the anticipated revenue impacts of the capital programme.

8.0 Knowledge and Skills

8.1 The PCC employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, both the Treasurer and Director of Finance are qualified accountants with substantial experience, and the Head of Business Accounting and Head of Technical Accounting are also qualified accountants. Where necessary, the PCC pays for staff to study towards relevant professional qualifications including CIPFA, ACCA and AAT.

8.2 Where the PCC needs additional resources or where staff do not have the knowledge and skills required, external advisers and consultants that are specialists in their field are used. The PCC currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the PCC has access to knowledge and skills commensurate with its risk appetite.

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DORSET POLICE & CRIME COMMISSIONER
DAVID SIDWICK

RESERVES STRATEGY

2023/24 to 2026/27

POLICE AND CRIME COMMISSIONER FOR DORSET
RESERVES STRATEGY 2023/24 to 2026/27

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POLICE AND CRIME COMMISSIONER FOR DORSET
RESERVES STRATEGY 2023/24 to 2026/27

1.0 Background

1.1 In January 2018 the Home Office issued guidance setting out the government's expectations around the information to be published by Police and Crime Commissioners on their financial reserves strategies.

1.2 The reserves strategy supports the annual budget and medium term financial plan, as reported to the Police and Crime Panel in February each year.

2.0 Scope

2.1 Police and Crime Commissioners (PCCs) can keep part of their funding in reserves to help manage financial risk and to fund major future costs such as change programmes aimed at improving services to the public.

2.2 Reserves are required to be classified as either Usable or Unusable. Usable reserves are those that can be used to support future service provision. Unusable reserves are not available to be used to support services; they include unrealised gains and losses which will only become available if for example assets are sold, and accounting timing differences which will be realised at a future date.

2.3 This Reserves Strategy sets out the PCC's approach to the management of Usable Reserves.

3.0 Guidance

3.1 Sections 32 and 43 of the Local Government Finance Act 1992 require precepting bodies to have regard to the level of resources needed to meet estimated future expenditure when calculating the annual budget requirement. This is further supported by the balanced budget requirement: England, sections 31A, 42A of the Local Government Finance Act 1992. Moreover, as part of the budget setting process, the Chief Financial Officer is required to comment on the adequacy of reserves. This relates to earmarked reserves as well as the General Balance and is a critical part in making the statutory Section 25 judgement on the robustness and sustainability of the PCC's budget proposals.

3.2 This strategy has regard to LAAP Bulletin 99 'Local Authority Reserves and Balances', issued in July 2014, and complies with the Home Office Guidance issued in January 2018, and the Revised Financial Management Code of Practice, issued in July 2018 by the Home Office.

3.3 Reserves are sums of money held to meet future expenditure. When reviewing the medium term financial plan and preparing the annual budget PCCs should consider the establishment and maintenance of reserves.

3.4 Reserves can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- a contingency to cushion the impact of unexpected events or emergencies - this also forms part of general reserves;
- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.

3.5 CIPFA recommends that for each earmarked reserve held there should be a clear protocol setting out:

- the reason for / purpose of the reserve;
- how and when the reserve can be used;
- procedures for the reserve's management and control; and
- a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

4.0 Responsibilities

4.1 The respective responsibilities in relation to reserves are set out in the Financial Regulations (see Appendix A).

5.0 Reserves Strategy

5.1 The PCC's policy statement is set out in the table below.

Policy Statement

The PCC will not plan to hold significant reserves above those required by the Medium Term Financial Plan.

In considering earmarked reserves, the Chief Financial Officer will have regard to relevant matters in respect of each reserve and will advise the PCC accordingly.

The key principles to be adopted in setting reserves are:

General Balances
The PCC will seek to maintain a general reserve between 3% and 5% of Net Revenue Expenditure. This will be supported by an annual budget risk assessment which will also identify the need for any specific earmarked reserves.

Earmarked Reserves
The need for earmarked reserves will be assessed annually through the budget setting process, to confirm the continuing relevance and adequacy of each earmarked reserve in addition to identifying any new reserves that may be required.

This Strategy will be reviewed annually by the OPCC Treasurer and consulted on with the Force Chief Finance Officer and the Joint Leadership Board.

POLICE AND CRIME COMMISSIONER FOR DORSET
RESERVES STRATEGY 2023/24 to 2026/27

5.2 The following earmarked reserves balances are held:

Name of Earmarked Reserve	Purpose	Opening balance 1 April 2022 £'000s	Target level
Budget Management Fund	To hold year end underspends for carry forward to the following year.	2,140	Opening Balance to be cleared during the year
Police and Crime Plan	To fund planned Police and Crime Plan developments.	865	£200,000 by 2025
Office of the Police and Crime Commissioner Legal Reserve	To fund future legal costs	178	£150,000 by 2023
Workforce Change Reserve	To fund one-off and transitional costs of change programmes including the Strategic Alliance with Devon & Cornwall Police.	643	Nil by 2026
Regional Collaboration Reserve	To hold funds related to past underspends and future planned spending for regional collaborations	73	Nil by 2023
Learning and Development Reserve	Used for the benefit of Dorset Police Officers and Dorset Police Staff for training and development purposes	46	Reduce to zero
Policing Education Qualifications Framework (PEQF) Reserve	To fund the costs of the PEQF across the MTFP	287	Nil by 2024
Uplift Reserve	To hold funds for infrastructure relating to future years uplift programme	849	Nil by 2024
Office of the Police and Crime Commissioner Reserve	To fund additional projects and pilot schemes within the Office	219	Nil by 2026

5.3 Home Office Classifications

5.3.1 The Earmarked reserves in the table above meet the Home Office classification: *Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.*

5.3.2 In addition **General Balances** are held: *As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management.*

5.3.3 There is no material*: Funding for specific projects and programmes beyond the current planning period.*

POLICE AND CRIME COMMISSIONER FOR DORSET
RESERVES STRATEGY 2023/24 to 2026/27

5.4 Total Usable Reserves

5.4.1 The forecasts for Usable Reserves over the period of the Medium Term Financial Plan are set out below.

USABLE RESERVES						
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Closing Balance as at:	**31/03/22**	**31/03/23**	**31/03/24**	**31/03/25**	**31/03/26**	**31/03/27**
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Budget Management Fund	**2,140**	186	0	0	0	0
Police and Crime Plan Reserve	**865**	865	400	200	0	0
Office of the Police and Crime Commissioner Legal Reserve	**178**	178	150	150	150	150
Workforce Change Reserve	**643**	643	643	0	0	0
Regional Collaboration Reserve	**73**	73	0	0	0	0
Learning and Development Reserve	**46**	46	30	15	10	5
Policing Education Qualifications Framework (PEQF) Reserve	**287**	287	287	0	0	0
Uplift	**849**	549	306	0	0	0
Dorset Office of the Police and Crime Commissioner Reserve	**219**	219	219	219	219	219
Total Earmarked Reserves	**5,300**	**3,046**	**2,035**	**584**	**379**	**374**
General Fund Balance	**5,550**	5,700	5,800	5,900	6,000	6,100
Total Revenue Reserves	**10,850**	**8,746**	**7,835**	**6,484**	**6,379**	**6,474**
Capital Receipts Reserve	**1,071**	315	315	315	315	315
Total Usable Reserves	**11,921**	**9,061**	**8,150**	**6,799**	**6,694**	**6,789**

POLICE AND CRIME COMMISSIONER FOR DORSET
RESERVES STRATEGY 2023/24 to 2026/27

5.4.2 The following table sets out the reserves as required by the Home Office strategy guidance.

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Closing Balance as at:	**31/03/22**	**31/03/23**	**31/03/24**	**31/03/25**	**31/03/26**	**31/03/27**
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Funding for projects and programmes over the period of the current MTFP	6,371	3,361	2,350	899	694	689
Funding for projects and programmes beyond the current MTFP	0	0	0	0	0	0
General Contingency	5,550	5,700	5,800	5,900	6,000	6,100
Total	**11,921**	**9,061**	**8,150**	**6,799**	**6,694**	**6,789**

POLICE AND CRIME COMMISSIONER FOR DORSET
RESERVES STRATEGY 2023/24 to 2026/27

Appendix A

FINANCIAL REGULATIONS [extract]

Maintenance of Reserves and Balances

3C.44 The PCC holds all reserves and balances.

3C.45 The Treasurer is responsible for creating a reserves strategy in consultation with the CFO.

3C.46 The Treasurer is responsible for advising the PCC about the level of reserves that the PCC holds and for ensuring there are clear protocols for their establishment and use. For each earmarked reserve held by the PCC there should be a clear protocol setting out:

a. The reason for/purpose of the reserve.

b. How and when the reserve can be used.

c. Procedures for the reserve's management and control.

d. A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

3C.47 The Treasurer and the CFO will keep any legal or constructive obligations (liabilities) under review throughout the year. Any changes to the provisions or reserves required in relation to such liabilities will be reflected in the regular budget monitoring reports to the Resource Control Board.

3C.48 In addition to the regular review outlined above the Director of Legal, Reputation and Risk will report formally to the appropriate governance board on the level of the outstanding liabilities and potential liabilities of the PCC and the Chief Constable as at 30 September and 31 March of any given financial year.

3C.49 The Treasurer and CFO have a duty to report on the robustness of estimates and the adequacy of reserves and provisions when the PCC is considering the budget. In particular the Treasurer must assess the adequacy of unallocated general reserves taking into account the strategic, operational and financial risks facing the PCC. In coming to this view the Treasurer must seek the advice of the CFO and of the Chief Constable on major policing risks facing the Force.

3C.50 The PCC shall approve the creation of reserves and appropriations to and from general balances and reserves. To enable the PCC to reach their decision the Treasurer shall report the factors that influenced their judgement, and ensure the advice given is recorded formally.

Devon & Cornwall Police and The Office of the Police & Crime Commissioner (OPCC)

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Dorset Police and The Office of the Police & Crime Commissioner (OPCC)

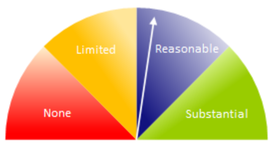
Report of Internal Audit Activity - December 2022

Agenda Item 8

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Executive Summary

Rolling Opinion



Overall, we are able to provide a **'reasonable'** rolling assurance opinion. One new limited review opinion has been issued, two reasonable opinions and one substantial opinion. We will continue to update this rolling opinion in subsequent Committee updates.

Internal Audit Assurance Opinions 2022/23

	Sep-Dec	YTD
Substantial	1	1
Reasonable	2	3
Limited	1	3
No Assurance	0	0
Total	**4**	**7**

Internal Audit Agreed Actions 2022/23

	Sep-Dec	YTD
Priority 1	0	4
Priority 2	10	16
Priority 3	10	12
Total	**20**	**32**

Progress Since Previous Committee

1 Limited Opinion
0 No Assurance Opinions
10 Priority Two Actions

Limited Assurance & Advisory Work
A limited assurance opinion has been given for the Boundary Defences Review. All actions were agreed by the Force. Please see Appendix A for further information. Our PFI Advisory Review has also been completed.

Significant Risks
No significant risks are to be reported at this meeting.

Plan Progress
Good progress has been made since the previous Committee with five 2022/23 reports being finalised (includes one Advisory review not included in the assurance summary) and one at draft report stage. All quarter three 2022/23 reviews are either in fieldwork or at draft report stage and quarter four reviews will shortly be initiated.

Plan Changes & Points to Note
There have been no changes to the plan since the last Independent Audit Committee. SWAP attended the Police Audit Group (PAG) Conference in November 2022 with representation from 75% of nationwide police auditors. This was a two day event with speakers from CIPFA, the IIA, Grant Thornton and force speakers from the UK and New Zealand. Innovation and change were discussed as future aspirations for all providers; however, SWAP could demonstrate significant and established advancements in this area over the past three years.

Profiled Delivery
We have commenced 71% of the annual audit plan (reviews underway or at reporting stage), in line with the profiled plan for 2022/23. We will provide a verbal update at Committee regarding current statuses.

2022/23 Plan Performance YTD

Performance Measure	Performance
Completed	43%
Draft Report	7%
Fieldwork	21%
Ready to Start	0%
Scoping	0%
Not Yet Due	29%

Document is Restricted

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Grant Thornton

Audit Progress Report and Sector Update

Devon and Cornwall Police and Crime Commissioner and Chief Constable
Dorset Police and Crime Commissioner and Chief Constable

Year ending 31 March 2022

December 2022

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Introduction and Headlines	4
Progress at 30 November 2022	5
2020/21 Deliverables	7
2021/22 Deliverables	8
Sector Update	9

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the entity or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key Grant Thornton team members

Alex J Walling

Engagement Lead

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Manager

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Flora Wood

Audit Incharge

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Alex will have ultimate responsibility for the delivery of your audit service. Specifics of the role include:

- leading our relationship with the Police and Crime Commissioner and Chief Constable, ensuring you have access to Grant Thornton's full service offering;
- being a key contact for the Chief Finance Officers and the Independent Audit Committee, meeting frequently with key members of management;
- taking overall responsibility for delivering high quality audits which meet professional standards;
- agreeing with you the annual joint audit plan, and a timetable for delivering the work;
- reviewing the audit file, giving particular focus to any key areas of risk or critical judgements exercised during the audits;
- reviewing and signing off all audit reports;
- attending Independent Audit Committee to discuss key issues arising from our work and any recommendations;
- acting as a 'sounding board' on key decisions relevant to our responsibilities as your auditors; and
- sharing good practice identified at other organisations.

Mark will ensure that all work allocated is carried out on a timely basis in accordance with the firm's professional standards and to the satisfaction of clients and engagement lead.

As the key contact Mark will be responsible for building and maintaining good working relationships with all colleagues and clients.

To support delivery of the testing strategy he will:

- assist the engagement lead in establishing audit objectives and overall scope;
- ensure key matters which arise during the audits which were not identified at the planning stage are properly assessed and dealt with;
- review the work of in-charge auditor and the wider fieldwork team;
- finalise our draft reports to management;
- manage, motivate and coach team members; and
- control the audits in relation to timescales, budgets and risk management procedures.

Flora will work as part of the team, leading the on site audit team, providing a service which meets or exceeds client expectations and supports the engagement lead / manager team. Specifics of the role include:

- taking an active part in the audit planning discussions to identify audit risks and appropriate audit strategy;
- communicating any issues relating to the audit with the engagement manager or engagement lead;
- overseeing all aspects of audit fieldwork and completion;
- addressing and discussing queries in respect of technical and audit issues identified during the course of the audit;
- maintaining good working relationships with client staff; and
- delegating work to other members of the audit team, ensuring they understand their responsibilities and have received appropriate on-the-job training / coaching.

Introduction & headlines

This paper provides the Independent Audit Committee with a report on progress in delivering our responsibilities as your external auditors

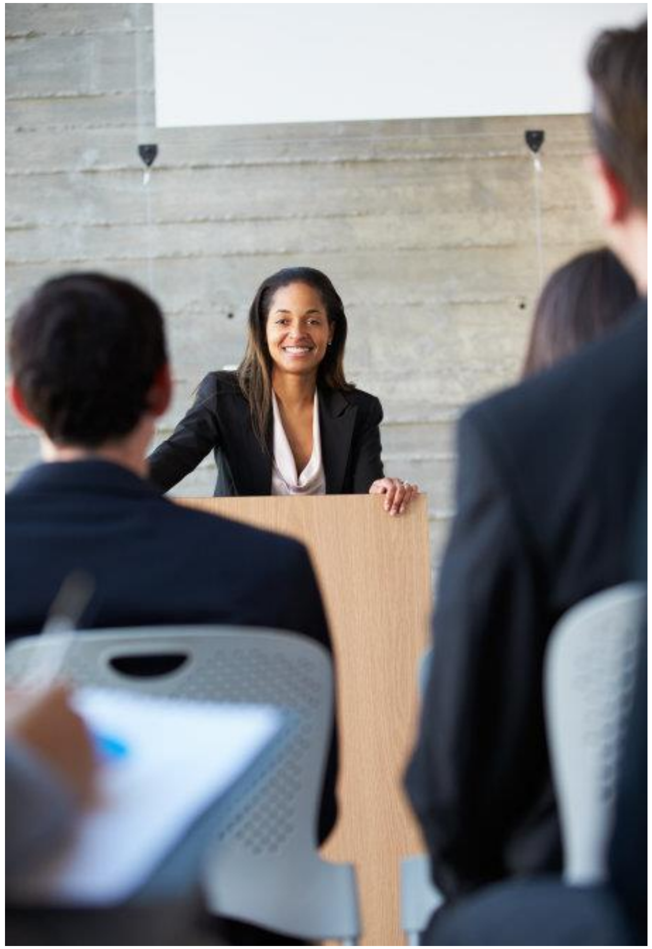
The paper also includes a summary of emerging national issues and developments that may be relevant to you.

Members of the Independent Audit Committee can find further useful material on our website where we have a section dedicated to our work in the public sector. Here you can download copies of our publications.

If you would like further information on any items in this briefing or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

We continue to bring specialists to our update conversations where appropriate to share any learning from our position as a leading audit supplier to the police sector.

You will also have access to our annual Chief Accountant Workshops and any other networking opportunities we create for the various stakeholders.



Progress at 30 November 2022

Financial Statements Audits

2020/21

Devon and Cornwall

We issued our audit report and certificates for Devon & Cornwall Police on 20 September 2022 formally closing the 2020/21 audit.

Dorset

Our work on the Dorset Police financial statements is substantially complete. The Assurance Letter from the Dorset Pension Fund auditor was received on 10 October 2022. However, an updated letter has been requested to address a sector wide issue and also to address a number of queries that we have raised in respect of the original letter. The original letter has also identified an understatement of the valuation of pension assets in the Dorset Pension Fund accounts. This has an impact on the Dorset Police share of the pension assets within the financial statements, which is currently being assessed by management. We will be unable to issue our audit opinion until these issues have been resolved.

2021/22

Devon and Cornwall

Our accounts audit is substantially complete. At the time of writing this report we are waiting on the assurance letter from the Devon Pension Fund auditor.

Dorset

Our audit Plan was presented to the June 2022 meeting. The audit started on 14 November 2022.

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies, we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office (NAO) updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible accounts opinions could be issued in line with national timetables and legislation. The extended deadline is now no more than three months after the date of the opinion on the financial statements.

The Auditor's Annual Report for 2020/21 for Devon & Cornwall Police was issued in March 2022.

The 2020/21 draft Auditor's Annual Report for Dorset Police is on the agenda of this meeting. The report currently reflects that we are waiting on information and evidence from management in relation four points in one of the Value for Money theme areas. The report cannot be issued as a final version until the audit opinion on the financial statements has been issued.

The extended deadline for the completion of Value for Money work will apply again in 2021/22 and we would plan to issue our Auditor's Annual Reports within three months of the date of the opinion on the financial statements.

Progress at 24 November 2022 (cont.)

Other areas

Meetings

We meet with Finance Officers regularly as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

Your officers attended our Accounts Workshop in January and February 2022, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

2020/21 Deliverables

2020/21 Deliverables	Planned Date	Status
Accounts Audit Plan We are required to issue detailed accounts audit plans to the Independent Audit Committee setting out our proposed approach in order to give opinions on the 2020-21 financial statements.	April 2021	Complete
Interim Audit Findings We will report to you the findings from our interim audits within our Progress Report.	July 2021	Complete
Audit Findings (ISA260) Report The Joint Audit Findings Reports will be reported to the Independent Audit Committee:		
• Devon & Cornwall Police	September 2021	Complete
• Dorset Police	March 2022	Complete
Auditor's Reports This is the opinion on your financial statements and annual governance statement(s):		
• Devon & Cornwall Police	October 2021	Complete
• Dorset Police	TBC*	Not due yet
Auditor's Annual Report The key output from local audit work on arrangements to secure VFM is an annual commentary on arrangements, which will be published as part of the Auditor's Annual Reports (AAR):		
• Devon & Cornwall Police	March 2022	Complete
• Dorset Police	November 2022	In progress
Audit certificate The certificate in effect closes the audit and marks the point when the auditor's responsibilities in respect of the audit of the period covered by the certificate have been discharged:		
• Devon & Cornwall Police	September 2022	Complete
• Dorset Police	TBC *	Not yet due

* We are awaiting the updated assurance letter from the Dorset Pension Fund auditor.

2021/22 Deliverables

2021/22 Deliverables	Planned Date	Status
Accounts Audit Plan		
We are required to issue detailed accounts audit plans to the Independent Audit Committee setting out our proposed approach in order to give opinions on the 2020-21 financial statements.	June 2022	Complete
Audit Findings (ISA260) Report		
The Joint Audit Findings Reports will be reported to the Independent Audit Committee:		
• Devon & Cornwall Police	September 2022	Complete
• Dorset Police	TBC	Not yet due
Auditor's Reports		
This is the opinion on your financial statements and annual governance statement(s):		
• Devon & Cornwall Police	December 2022	Not yet due
• Dorset Police	TBC	Not due yet
Auditor's Annual Report		
The key output from local audit work on arrangements to secure VFM is an annual commentary on arrangements, which will be published as part of the Auditor's Annual Reports (AAR):		
• Devon & Cornwall Police	January 2023	Not yet due
• Dorset Police	TBC	Not yet due
Audit certificate		
The certificate in effect closes the audit and marks the point when the auditor's responsibilities in respect of the audit of the period covered by the certificate have been discharged:		
• Devon & Cornwall Police	January 2023	Not yet due
• Dorset Police	TBC	Not yet due

Sector Update

Policing services are rapidly changing. Increased demand from the public and more complex crimes require a continuing drive to achieve greater efficiency in the delivery of police services. Public expectations of the service continue to rise in the wake of recent high-profile incidents, and there is an increased drive for greater collaboration between Forces and wider blue-light services.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider Police service and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from sector specialists**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and police sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Police

Audit Market Developments

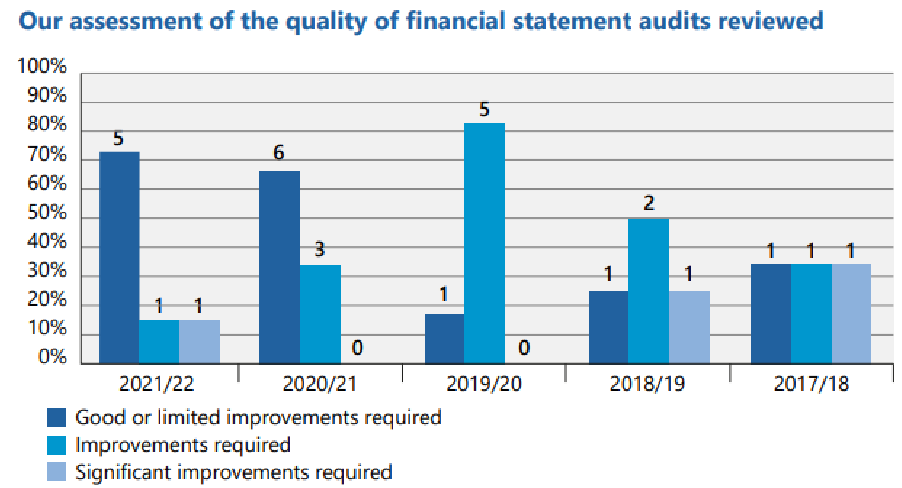
Financial Reporting Council Report On The Quality Of Local Audit

In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files as requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found here.

Financial Reporting Council

Audit Market Developments (continued)

Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and value for money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found here

Audit Committees: Practical Guidance For Local Authorities And Police – CIPFA

In October CIPFA published this guide, stating “This fully revised and updated edition takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement. It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee’s development.”

CIPFA go on to state “Audit committees are a key component of governance. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. They play an important role in supporting leadership teams, elected representatives, police and crime commissioners and chief constables.

This edition updates CIPFA’s 2018 publication to complement the 2022 edition of the CIPFA Position Statement on audit committees.

The suite of publications has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee.

New aspects include legislation changes in Wales and new expectations in England following the Redmond Review. All authorities and police bodies are encouraged to use the publication to review and develop their arrangements in accordance with the Position Statement.

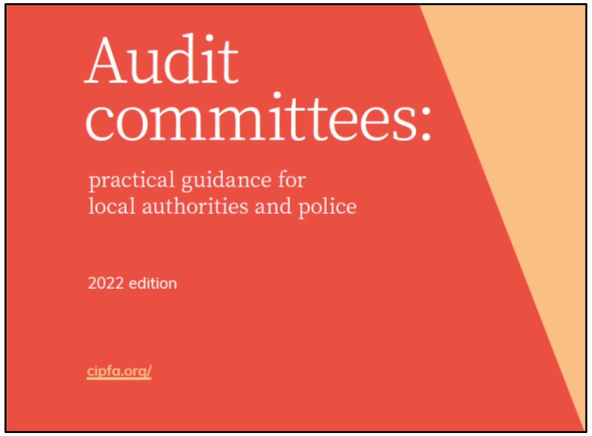
The appendices include suggested terms of reference, a knowledge and skills framework and effectiveness improvement tools.”

The guide covers a number of key areas for Audit Committees, including:

- Purpose
- Core functions:
  - Governance, Risk and Control
  - Accountability and Public Reporting
  - Assurance and Audit arrangements
  - Ensuring focus
- Independence and accountability
- Membership and effectiveness

The guide can be purchased via the CIPFA website:

Audit Committee Guidance: 2022 update | CIPFA



Home Office

Home Office

NPCC led review: operational productivity of policing

Total funding for policing in 2022 to 2023 is nearly £17 billion - the highest for over a decade. By April 2023 central government will have invested over £3.5 billion in supporting the recruitment of 20,000 additional police officers through the Police Uplift Programme, of which 13,790 have been recruited so far.

It is therefore crucial that national forces deliver the best possible value for the public from this investment. The Home Secretary has asked the National Police Chiefs' Council to lead a review of productivity in policing. This review intends to improve the understanding of effectiveness and productivity in policing, identifying the barriers and the most efficient operating models. The review will also look at the scope for using new technology or streamlining processes and removing bureaucracy to drive efficiency and better outcomes.

The review will be led by Sir Stephen House, supported by an advisory board including His Majesty's Chief Inspector of Constabulary and Fire & Rescue Services (HMICFRS), the chief executive of the College of Policing and Association of Police and Crime Commissioners (APCC). Terms of reference will be published in due course, following agreement by the advisory board and Home Office. It is expected to report within 12 months and with interim findings in spring 2023

The full article can be found here.

Association of Police and Crime Commissioners

NCA Director General set to prioritise fraud

Home Secretary Priti Patel has appointed Graeme Biggar CBE as Director General of the National Crime Agency (NCA) to lead the fight against serious and organised crime and bring drug and people traffickers to justice.

One of his focuses as Director General will be on improving fraud investigations and ensuring the NCA have the resources it needs to investigate and disrupt widespread corruption, tackle fraud as well as go after businesses that enable money laundering.

APCC Lead for Fraud and Police and Crime Commissioner, Mark Shelford said: "I am delighted to hear the news that the new Chief of the NCA will be prioritising fraud, especially as this type of crime continues to increase exponentially. Fraud is one of the fastest growing crime types and I have heard first-hand how it impacts those who fall victim to it. We must get a handle on this situation to stop more people becoming victims and recognising fraud as a priority is the first step in effectively investigating this type of crime."

See the full article here.

Association of Police and Crime Commissioners

Leading the way in tackling climate change

APCC Environment and Sustainability Leads say Police and Crime Commissioners (PCCs) are 'at the heart of the decarbonisation agenda' in the latest In Focus report published in August.

Climate change is an important issue for the British public and this gives PCCs a strong mandate as the public's voice to ensure that policing is striving to meet its challenges and taking the steps to mitigate the risks that it poses. Joint National Leads and Police and Crime Commissioners Joy Allen and Tim Passmore pledge their commitment to ensuring all commissioners play their full part in achieving the Net Zero ambition in the latest In Focus report on Environment and Sustainability.

The report highlights the work that PCCs are doing up and down the country to reduce the carbon footprint in their force area and ensure to a sustainable future.

With the Government committed to achieving Net Zero carbon emissions by 2050, and the College of Policing identifying climate change as one of the ten most significant challenges for policing over the next ten years, the APCC has joined forces with its policing partners at the National Police Chiefs Council and Bluelight Commercial, to deliver a policing decarbonisation programme, first launched in November 2021.

Review the full report here.

Association of Police and Crime Commissioners

APCC Impact Report 2021/2022

The Association of Police and Crime Commissioners has published its annual Impact Report, setting out how the organisation and PCCs have been making a difference over the past year. Work highlighted within the 2021/22 report includes how the APCC has supported members post the 2021 elections and how membership has grown.

Review the full report here.

Grant Thornton

grantthornton.co.uk

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Auditor’s Annual Report on the Police and Crime Commissioner and Chief Constable for Dorset

2020-21

DRAFT

November 2022

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Police and Crime Commissioner and Chief Constable have made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Police and Crime Commissioner and Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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Improving economy, efficiency and effectiveness	12
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Executive summary

Value for money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Police and Crime Commissioner (PCC) and Chief Constable (CC) have put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources. We are required to report in more detail on the overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. The specified criteria are set out below

Criteria	Risk assessment	Findings
Financial sustainability	No risk of significant weakness identified	No significant weaknesses in arrangements identified
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified. One improvement recommendations also made.
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified

Financial sustainability

The PCC and Chief Constable have a good track record of sound financial management and delivered an breakeven position in 2020/21, after a £760k transfer to reserves. The PCC and Chief Constable understand the financial risks which they faced and managed these risks by maintaining an appropriate level of reserves. Overall we are satisfied that the PCC and Chief Constable had appropriate arrangements in place to manage the risks they faced in respect of its financial resilience. We have not identified any risks of significant weakness or recommendations as a result of our review.

Governance

We found the PCC and Chief Constable's governance arrangements to be effective, and did not identify any significant weaknesses. We have made one improvement recommendation.

Improving economy, efficiency and effectiveness

The PCC and Chief Constable have put in place effective arrangements to improve economy, efficiency and effectiveness. No significant weaknesses or recommendations have been identified as a result of our review. Evidence is outstanding from management in this area.

Commentary on the PCC's and the CC's arrangements to secure economy, efficiency and effectiveness in their use of resources

All PCCs and CCs are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The PCC's and CC's responsibilities are set out in Appendix A.

PCCs and CCs report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the PCC and CC have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial sustainability

Arrangements for ensuring the PCC and CC can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the PCC and CC make appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the PCC and CC make decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the PCC and CC deliver their services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 5 to 17.

Financial sustainability

We considered how the PCC and the CC:

- identifies all the significant financial pressures they are facing and builds these into their plans
- plans to bridge funding gaps and identify achievable savings
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures financial plans are consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

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Financial Context

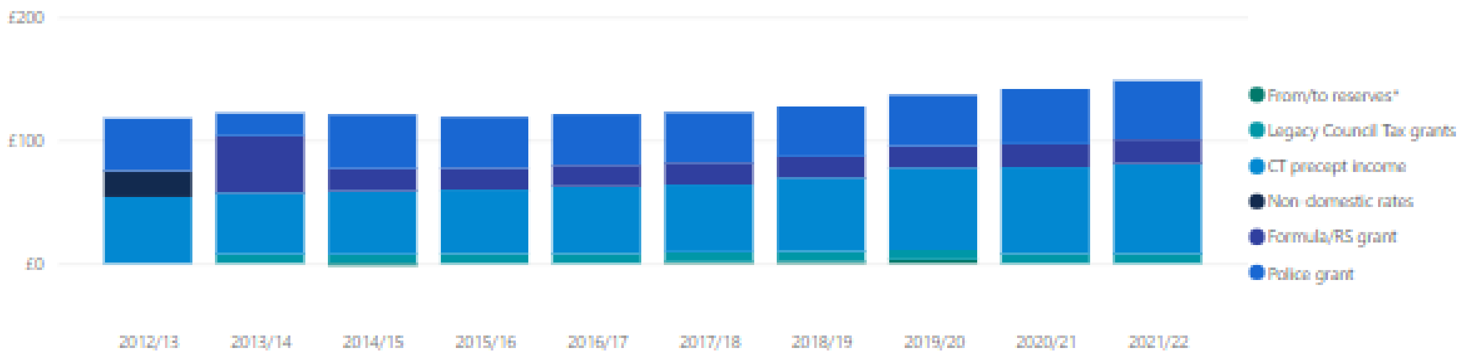
The Comprehensive Spending Review and Government Settlements are reviewed by the Chief Constable's and PCC's Chief Finance Officers (CFO) on an ongoing basis to try to model future resource envelopes that Dorset Police will operate in. As for all police bodies, annual settlements and the lack of longer-term assurances over funding make financial planning more difficult and short-term in its focus. The three year settlement from 2022/23 will help bring further clarity around these planning assumptions.

The Home Secretary laid the Police Grant Report 2020/21 before the House of Commons on 17 December 2020. The report stated that overall funding for policing for 2021/22 would total up to £15.8 billion - a £636m increase on the previous year's settlement. Within this, available funding to PCCs would increase by up to an additional £703m.

The main grant for Dorset Police for 2021/22 is £75.3m. Core funding increased by £6.7m (4.75%). The Government announced an increase of £415m to government grants for the recruitment of a further 6,000 additional officers by the end of March 2022. Dorset's share of the increase was £2.2m. Dorset has been allocated 49 additional officers in 2021/22. In addition, like other police bodies, Dorset Police also received a one-off grant to reflect differences in council tax income pre-Covid and expected council tax income reduced due to Covid. Dorset Police was allocated £1.18m.

The PCC has had to consider what level of increase to set for council tax in 2021/22. PCCs had the flexibility to increase Council Tax by up to £15 in 2021/22. Taking the results of the budget consultation into account, the PCC decided to increase the council tax precept by £15, the maximum permitted.

The graph below is an extract from the HMICFRS Value for Money profiles and demonstrates how Dorset Police's funding is split.



Overview of the arrangements to ensure financial sustainability

The Medium-Term Financial Strategy (MTFS) covers the PCC and Chief Constable, and clearly articulates the cost of delivering core services and of the financial inputs that are required to deliver these services efficiently.

The MTFS is embedded within the annual budget setting cycle to provide a longer term view of priorities and demand for services. It sets out the framework for strategic planning over the next four years to 2024/25. The PCC updates the MTFS (including the Chief Constable allocation) each year. The MTFS sets the environment surrounding finances, identifying the consequences of savings and investment over the next few years based on assumed funding level. The MTFS is reported through the governance structure to the Police and Crime Panel.

Workforce planning is incorporated into the budget formation and monitoring at a high level. The budget and MTFS set the establishment requirement within the financial envelope; the workforce plan then delivers these numbers with monthly reviews of officer numbers occurring with recruitment being adjusted based on this.

As for all police bodies, annual settlements and the lack of longer term assurances over funding have made financial planning more short-term in its focus. The three year settlement from 2022/23 will help bring further clarity around these planning assumptions going forward.

Key Financial Assumptions

In February 2021 the MTFS was updated for the period 2021/22 to 2024/25. At this point the settlement and precept for 2021/22 was known. Key assumptions have been used for 2022/23 onwards, including:

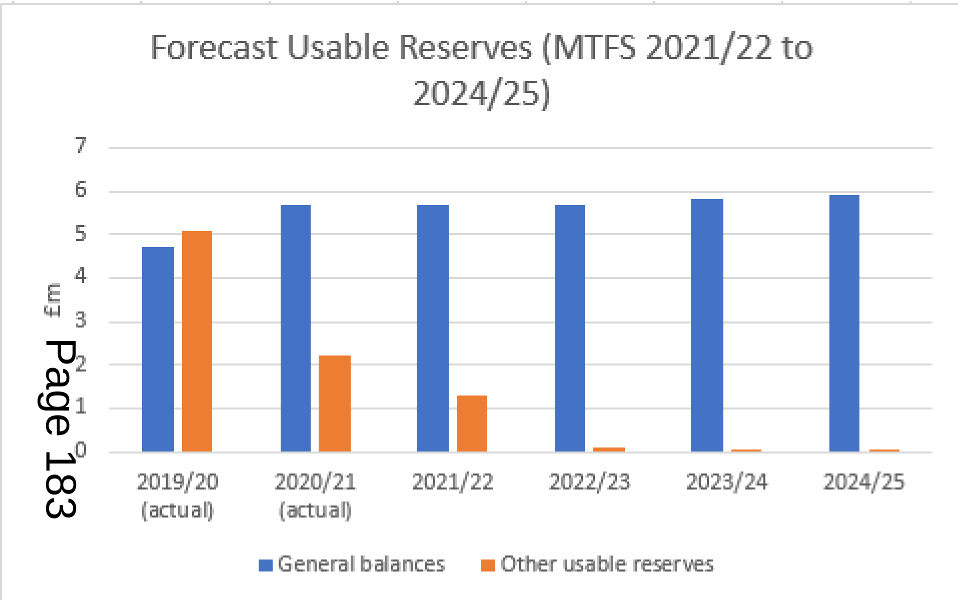
- Main grant funding - The MTFS assumes that the government grant funding will increase by 1% increase from 2023/24. Central funding assumptions are deemed reasonable based on the latest information available. The funding assumptions also do not build in any changes from the anticipated review of the funding formula. The review has been expected for several years and has been delayed many times which has been further impacted by Covid.
- No general increase for inflation has been applied to budgets, apart from some specific areas, including the National Police Air Service (NPAS) and insurance premiums.
- Pay is typically the largest area of expenditure for the force, and hence forms a significant portion of the budget allocation from the OPCC. The pay award for officer and staff in September 2020 was 2.5%. In the Spending Review announced in November 2020 the Chancellor stated that pay rises in 2021 will be paused for public sector workers (except for NHS workers). It was therefore assumed that there would be no pay increase for officers and staff in September 2021. For the remaining MTFS period it has been assumed that pay increases will be 1% per year. The pay increase assumptions are line with expectations and neighbouring forces.
- Council Tax income – The increase each year is set by the PCC, bearing in mind the referendum limit set for that year. The MTFS assumes increases of 3.9% in 2022/23, 3.8% in 2023/24 and 3.5% in 2024/25. It is assumed that the tax base will increase by 1.25% in 2022/23 and by 1.5% in 2023/24 and 2024/25.

The assumptions and cost base changes above are generally in line with our knowledge of Dorset Police and the wider police sector.

Saving Schemes

As part of the MTFS process, savings are identified to help balance the budget. These savings have been incorporated within the budget and monitored intrinsically via the main budget monitoring process.

Savings of £0.5m have been built into the 2021/22 budget, representing 0.3% of net revenue expenditure.



Reserves

The PCC has a Reserves Strategy to maintain a general balance at no more than 5% and no less than 3% over overall funding levels each year.

Total usable reserves in the 2020/21 financial statements had increased slightly from the prior year and stood at £10.1m, with the general fund balance being £5.7m. The MTFS projects total usable reserves (general balances plus other usable reserves) reducing year on year to £5.9m by 31 March 2025, with this being almost exclusively the general balance. Despite this planned reduction, the level of general balances is maintained and is in line with the Reserves Strategy.

It is the responsibility of the PCC's Chief Financial Officer to ensure that adequate reserves are held, which they have confirmed within the Reserves Strategy.

Capital

The Capital Strategy reflects the priorities of the PCC outlined in the Police and Crime Plan. The four-year capital programme is part of the MTFS, and the revenue consequences of the capital schemes are taken into account in the MTFS. The capital programme monitoring is formally reported to the Resource Control Board on a quarterly basis.

The Treasury Management and Investment Strategy is closely linked to the Capital Strategy and the Reserves Strategy. The Treasury Management Strategy is updated annually and reflects the requirements of the CIPFA Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities. Treasury Management performance is reported on a quarterly basis.

Conclusion

Overall, we have found no evidence of significant weaknesses in the arrangements for ensuring financial sustainability.

Governance

We considered how the PCC and the CC:

- monitor and assess risk and gain assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approach and carry out the annual budget setting process
- ensure effectiveness processes and systems are in place to ensure budgetary control
- ensure they make properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitor and ensure appropriate standards.

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Overview of Governance Arrangements

The PCC and Chief Constable have an appropriate scheme of governance which outlines the scheme of delegation and decision making. This governance and meeting structure ensures that papers and business cases are routed through the appropriate channels for scrutiny, challenge and agreement before being presented for approval by the Chief Constable and the Police and Crime Commissioner.

Within the Police sector the PCC and Chief Constable act as 'those charged with governance'. The Independent Audit Committee (IAC) is a key component of the PCC and Chief Constable's arrangements for corporate governance. It is a joint committee that covers both Dorset Police and Devon & Cornwall Police. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. The purpose of the Committee is to provide independent assurance to the PCC and the Chief Constable regarding the adequacy of the risk management framework and the associated control environment within Dorset Constabulary and the Office of the PCC. It considers the reports of internal and external audit and has oversight of general governance matters. It also provides comment on any new or amended policies and strategies with regard to financial risk and probity.

The Chair and Vice-Chair of IAC have informal dialogue with the Chief Financial Officers for the PCC and the Chief Constable and also have direct access to the PCC and Chief Constable.

Monitoring and Assessing Risk

There are separate comprehensive risk registers for the OPCC and the Force which set out the strategic and operational risks identified, the mitigating actions that have been put in place to manage the risk and an assessment of the current risk. The registers are up to date and reviewed on a regular basis.

The risk registers are RAG rated and allocated to a Executive Lead or relevant Head of Department who has responsibility for monitoring these risks and ensuring they are considered at a higher level with potential mitigations put in place.

There was a Strategic Risk Management Policy and Procedure in place in 2020/21 which outlined the approach to risk, but this refers to the previous arrangements where Devon & Cornwall Police and Dorset Police reported to a Joint Risk and Assurance Board. An updated risk management policy for Dorset Police was implemented in June 2022.

The Force Risk Register is submitted to the Deputy Chief Constable's Board on four monthly basis. The OPCC register is reported to the Joint Leadership Board.

Risk is well understood across all levels of management at the OPCC and Force, and this is clearly reported and scrutinised through the governance structure.

Annual Budget Setting Process and Budgetary Control

The annual budget and MTFS are developed in parallel each year. We have already considered financial plans for 2021/22 and future years in the financial sustainability section of this report.

Financial reporting is a key objective for senior managers and is discussed and monitored in detail.

The PCC and Chief Constable share a responsibility to identify and agree, in consultation with partners and stakeholders, a MTFS which includes funding and spending plans for both revenue and capital. The budget is built up with input from individual budget holders. The budget and MTFS is then ultimately approved by the Police and Crime Panel.

Budget management ensures that once the PCC has approved the budget, resources allocated are used for their intended purpose and are properly accounted for. Budgetary control is a continuous process, enabling both the Chief Constable and PCC to review and adjust their budget targets during the financial year.

Budget holders and the senior management team receive monthly budget monitoring reports, with the Group Budget Monitoring Report being considered by the Resource Control Board on a quarterly basis. The Group Budget Monitoring Report includes financial and non-financial information, including workforce data, and contains detailed explanations and analysis of budget variances.

There is significant reliance on a key officer within the finance team for the production of the financial statements and to deal with audit queries. There have been efforts to provide additional support, but these are only partially effective to date with many audit queries needing to be resolved by the one individual. Over reliance on one individual represents a risk to the PCC and Chief Constable and we have raised an improvement recommendation.

Monitoring and Compliance with Standards

The OPCC and Force have a Code of Corporate Governance in place which sets out the systems, processes and values by which the business of the PCC and the Force are directed and controlled, and through which they account to and engage with their communities. They are committed to ensuring individuals in its employment have a mechanism to report any suspected illegal or unethical conduct, without suffering any detrimental impact on themselves, their current or future employment and career opportunities. The Protected Disclosure (Whistleblowing) and Support to People Reporting/Witnessing Suspected Wrongdoing Policy supports this.

The Force has its own Professional Standards team. Their work is underpinned by the Home Office Guidance; Conduct, Efficiency and Effectiveness: Statutory Guidance on Professional Standards, Performance and Integrity in Policing. There is an integrated complaints process which covers both officers and police staff. Complaints are monitored closely with the relevant course of action taken against individuals.

There is a Gifts and Gratuities policy available and a central register. The OPCC and Force have arrangements in place for officers to make declarations of interest. Staff, Officers and IAC members are required complete a Declaration of Interests form each time a potential conflict of interest arises. This is also confirmed at the start of every meeting based on the agenda items that are being discussed. There is no evidence of interests not being declared.

Internal Audit is provided by the South West Audit Partnership, which also provides services to several other police bodies in the region. The Public Sector Internal Audit Standards (PSIAS) external review of this service was last carried out in February 2020 and the service was awarded the highest rating available.

Internal Audit report to the Independent Audit Committee on a quarterly basis through the form of progress reports which summarise the work of each review as well as key recommendations. Internal Audit publish an annual report which summarises the results of their work during the financial year and, as required by the Accounts and Audit Regulations 2015, give an overall opinion of the control environment that operated during the year in respect of the PCC and Chief Constable. On the basis of the majority of the assurance opinions provided and giving consideration to the adequacy and effectiveness of the wider governance and risk management arrangements at the Force and OPCC in 2020/21, the Head of Internal Audit gave a 'reasonable' annual opinion, with no significant issues that required inclusion within the Annual Governance Statement.

Conclusion

The OPCC and Constabulary have put in place effective governance arrangements. One improvement recommendation has been raised.

Improvement recommendation

Governance

Recommendation	The Chief Financial Officers for the PCC and Chief Constable should ensure that the capacity of the finance team responsible for the production of the financial statements is reviewed to ensure that the process is not over reliant on one key officer.
Why/impact	Over reliance on one individual represents a risk to the PCC and Chief Constable for the production of the financial statements and an efficient audit process.
Summary findings	There is significant reliance on a key officer within finance for the production of the financial statements and to deal with audit queries. There have been efforts to provide additional support but these are only partially effective to date with many audit queries needing to be resolved by the one individual.
Management comment	OUTSTANDING

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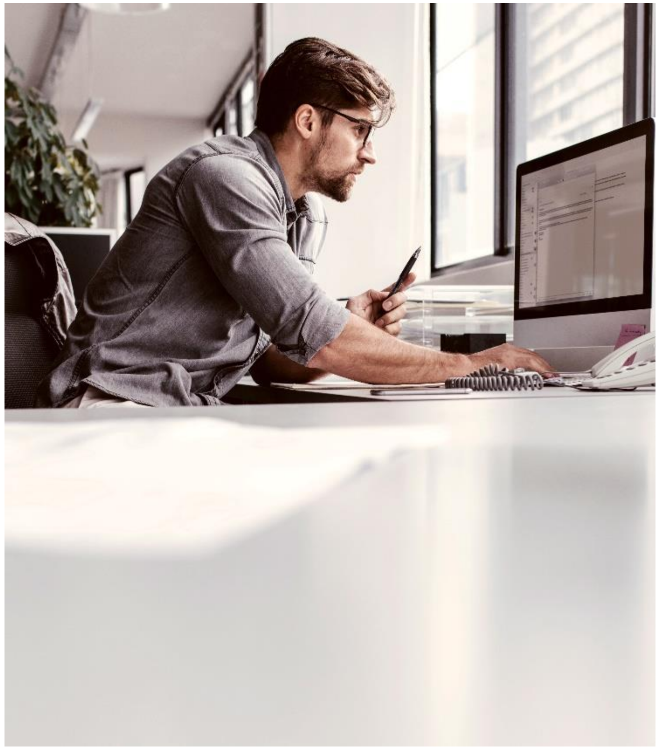

The range of recommendations that external auditors can make is explained in Appendix C.

Improving economy, efficiency and effectiveness

We considered how the PCC and the CC:

- use financial and performance information to assess performance to identify areas for improvement
- evaluate the services they provide to assess performance and identify areas for improvement
- ensure they delivers their role within significant partnerships, engage with stakeholders, monitor performance against expectations and ensure action is taken where necessary to improve
- ensure that they commission or procure services in accordance with relevant legislation, professional standards and internal policies, and assesses whether they are realising the expected benefits.

Performance Monitoring

The overarching strategy for Dorset Police is framed by the Police and Crime Plan 2017-2021. This plan sets out the strategic plan for the Force and has been shaped by consultation with stakeholders and analysis of inspections, audits and police performance in Dorset.

The priorities that make up the Police and Crime Plan are:

- Protecting People at Risk of Harm
- Working with our Communities
- Supporting Victims, Witnesses and Reducing Reoffending
- Transforming for the Future

A quarterly performance monitoring report is presented to each Police and Crime Panel meeting which gives the OPCC assessment of current performance against the strategic indicators for the Police and Crime Plan.

Evidence outstanding: Details and supporting evidence of how the Force monitored and reports on the performance of direct service provision in 20/21. We can see what ultimately gets reported to the Police and Crime Panel, so we are looking to understand the reporting internally within the Force, with some example reports.

The HMICFRS value for money datasets are used by the finance department to identify possible areas for follow up where Dorset are an outlier.

Working with Partners and key stakeholders

The Police and Crime Plan 2017-2021 details how crucial effective collaboration and partnership working is for Dorset. This includes partnership working both a national and regional level which ensures that shared outcomes are developed, and the strategies of the OPCC and Force align with this.

The work of partnerships is fed back through the governance and delivery structure. Awaiting details on which group has oversight of governance issues in respect of partnership arrangements.

The South West Police Collaborations Strategic Board provides strategic governance and oversees collaborations across the region, with the Regional Operations Board managing the day to day oversight of the operations. The most significant collaboration areas are the Regional Organised Crime Unit and South West Forensics.

Both the PCC and Chief Constable have extensive networks through national forums which encourage shared learning and improvement. The PCC and Chief Constable also work closely with local authorities, NHS bodies and other community organisations in the local areas to ensure a joined-up approach when delivering services to residents.

The PCC undertakes consultation of the public and key strategic partners throughout the year. The key consultation that takes place on an annual basis is in regard to the budget and the precept. Waiting on the 2020/21 Annual Engagement Report to include some more details. The results of these consultations are then reported on the PCC's website.

Procurement and Commissioning

The Police and Crime Commissioner procures all services and goods on behalf of the Chief Constable and is responsible for setting the direction of policing in Dorset. Dorset Police are part of the South West Police Procurement Department (SWPPD). The SWPPD was launched in 2012 to provide a collaborative procurement service for the four regional forces of Devon & Cornwall, Dorset, Gloucestershire and Wiltshire. The professionally qualified team has a wealth of specialised public and private sector experience. This approach was established to ensure that through increased collaboration and a more strategic approach to procurement, significant savings are delivered.

A bi-monthly Procurement Board monitors performance across the forces in the procurement collaboration. SWPPD produce an annual report each year which outlines the projects plans and savings achieved through collaborative procurement. No issues were flagged in the 2020-21 Annual Report.

Conclusion

The PCC and Chief Constable have appropriate arrangements in place to improve economy, efficiency and effectiveness. No significant weaknesses or recommendations have been identified as a result of our review. Evidence is outstanding from management in this area.

COVID-19 arrangements

Since March 2020 COVID-19 has had a significant impact on the population as a whole and how the PCC and CC deliver services.

We have considered how the PCC's and CC's arrangements have adapted to respond to the new risks they are facing.

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Overview of Covid-19 Arrangements

During the Covid-19 pandemic, the OPCC and the Force's top priorities have been to maintain the best service to the public, protect officers and staff and support the national response. Frontline policing delivery remained mainly unchanged, with the implementation of Covid-19 legislation and regulations continuing to be a key part of response work.

Agile working facilitated the majority of OPCC and Police Staff to work from home and the use of technology has enabled social distancing to be observed. Staffing costs remained relatively consistent as officers were continuing with their police duties, when back-office staff were successfully redeployed to work from home.

The majority of the costs relating to the pandemic have been incurred during 2020/21. To assist, additional funding has been provided by Central Government for some of the expenditure mentioned – specifically around Personal Protective Equipment and creating Covid-19 secure buildings. Additional costs related to Covid-19 have been separately monitored and reported throughout.

The Covid-19 pandemic resulted in a number of normal governance structures being temporarily suspended or replaced with virtual meetings. This was primarily due to resources being redeployed to meet the immediate challenges of Covid-19. It was replaced with a temporary structure that provided delivery structures for the Covid-19 incident as well as daily force performance monitoring on critical measures.

Whilst the Force generally maintained a 'business-as-usual' approach to its governance arrangements during the pandemic, some adjustments were required. As a result of the lockdown restrictions announced on the 16 March 2020, the Force adjusted some of its internal control processes to support effective governance throughout the pandemic. All office-based staff were provided with the necessary equipment to work from home, enabling a smooth transition to remote working where this was possible. Home-based working has continued throughout the pandemic, and the Force and OPCC have not seen a significant impact on productivity as a result. Following the first national lockdown, meetings moved to video conferencing and subsequently took place online throughout the pandemic. Our reviews of the meeting minutes evidenced that appropriate levels of scrutiny and challenge continued to be applied, and we saw this first-hand from our attendance at Independent Audit Committee meetings. There was also consideration by the entities around the different risks and the strategic risk registers were updated to ensure Covid-19 related risks were recorded appropriately and mitigated where appropriate.

Conclusion

The OPCC and the Force have managed the challenges posed by the Covid-19 pandemic. Our review has not identified any significant weaknesses in arrangements for responding to the Covid-19 pandemic.

Opinion on the financial statements

Audit opinion on the financial statements

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We have not yet been able to issue our opinion on the Group, Police and Crime Commissioner and Chief Constable's financial statements for 2020/21 as the Assurance Letter from the auditor of Dorset Pension Fund was not received until October 2022. We have raised a number of queries on the letter and our work therefore remains in progress.

Audit Findings Report

More detailed findings can be found in our Audit Findings Report, which was published and reported to the PCC's and CC's Independent Audit Committee on 5 April 2022.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA returns prepared by the PCC and CC. This work includes performing specified procedures under group audit instructions issued by the National Audit Office (NAO).

Our work has not yet been completed as the 2020/21 audit opinions have not yet been issued.

Preparation of the accounts

The PCC and CC provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Issues arising from the accounts:

The key issues identified from our accounts audit were:

- Our testing of a sample of assets revalued identified that the site areas used for the valuations of the land element of the assets on the Bournemouth site were incorrect. This resulted in an updated valuation being carried out
- The external valuer was unable to provide supporting evidence to support assumptions for some of the assets tested, including for comparable land values, either due to evidence not being retained or the valuer's judgement not being documented. The external valuer was also relying on data from previous valuers rather than carrying out their own work in some instances.

Grant Thornton provides an independent opinion ensuring the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation

Appendices

Appendix A - Responsibilities of the PCC and CC

Role of the Chief Financial Officer:

- Preparation of the statement of accounts
- Assessing the PCC's and CC's ability to continue to operate as going concerns

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the PCC's and CC's ability to continue as going concerns and use the going concern basis of accounting unless there is an intention by government that the services provided by the PCC and CC will no longer be provided.

The PCC and CC are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the PCC's and CC's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the PCC and CC under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the PCC and CC to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the PCC and CC. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented, should improve the arrangements in place at the PCC and CC, but are not a result of identifying significant weaknesses in the PCC's and CC's arrangements.	Yes	11

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Informing the audit risk assessment for Dorset Police and Crime Commissioner and Chief Constable 2021/22

Agenda Item 9c

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Dorset Police and Crime Commissioner and Chief Constable's external auditors and Dorset Police and Crime Commissioner and Chief Constable, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of ‘those charged with governance’ under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Police and Crime Commissioner and Chief Constable. ISA(UK) emphasise the importance of two-way communication between the auditor and ‘those charged with governance’ and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Police and Crime Commissioner and Chief Constable in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the ‘those charged with governance’ and supports those charged with governance in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Police and Crime Commissioner and Chief Constable’s oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Dorset Police and Crime Commissioner and Chief Constable's management. The Police and Crime Commissioner and Chief Constable as 'those charged with governance' should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?	There has been a robust consideration of the monitoring information throughout the year which has enabled actions to be taken early. The main aspects impacting on 2021/22 have been; Valuations at 31st March – both PPE and Pensions.
2. Have you considered the appropriateness of the accounting policies adopted by Dorset Police and Crime Commissioner and Chief Constable?	Accounting policies have been reviewed and considered. The fair value measurement of non-financial assets has been added in for completeness. In practice it was already in place. No substantive changes to the Accounting Policies. They have also been reviewed against the CIPFA code to ensure that they remain appropriate.
Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	No
3. Is there any use of financial instruments, including derivatives? If so, please explain	We have financial instruments which are disclosed in the notes to the accounts. None of which are derivatives.
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	No

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General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No, not since the draft accounts were published. Valuations were provided as at 1 February 2022. A further assessment was undertaken to ascertain if the valuations had changed between the valuation date and the reporting date of 31 March 2022.
6. Are you aware of any guarantee contracts? If so, please provide further details	Yes – The PCC has provided a pension guarantee for the APCC pension fund. This is covered in the contingent liability note in the accounts.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Dorset Police and Crime Commissioner and Chief Constable during the year. Please indicate where they are working on open litigation or contingencies from prior years?	We primarily use the in house Legal Department. That department will also commission work from other lawyers, predominantly barristers, in relation to specific work areas. External legal advice has also been sought on detailed estates issues.

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General Enquiries of Management

Question	Management response
9. Have any of the Dorset Police and Crime Commissioner and Chief Constable's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Arlingclose Limited - Treasury Management Advisors, providing advice on Treasury Management matters as and when they arise and to provide quarterly updates on performance. Ernst & Young – VAT Advisors- providing advice on VAT matters as and when they arise. With regards to the accounts, we use Arlingclose Limited (as mentioned above), Barnett Waddingham for valuing pensions and Vickery Holman (MRICS) for valuing assets.
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Yes – this is included within the IFRS9 working paper. Expected credit loss is calculated for: investments held with banks (£1k) and debtors classed as other (£40k). The amounts are below the materiality and triviality threshold levels.

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both ‘those charged with governance’ and management. Management, with the oversight of the Police and Crime Commissioner and Chief Constable as ‘those charged with governance’, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, those charged with governance should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Dorset Police and Crime Commissioner and Chief Constable’s external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Police and Crime Commissioner and Chief Constable as those charged with governance regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Police and Crime Commissioner and Chief Constable as ‘those charged with governance’ oversees the above processes. We are also required to make inquiries of both management and the Police and Crime Commissioner and Chief Constable as ‘those charged with governance’ as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Dorset Police and Crime Commissioner and Chief Constable’s management.

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Fraud risk assessment

Question	Management response
1. Has Dorset Police and Crime Commissioner and Chief Constable assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Police and Crime Commissioner and Chief Constable's risk management processes link to financial reporting?	Yes. The S151 officers have a remit for risk and audit and maintain close links with the internal audit lead, Head of Audit, Insurance and Strategic Risk and the Professional Standards Department. This is on top of the formal framework outlined in the Annual Governance Statement. The Independent Audit Committee also receive regular reports on fraud and we routinely participate in the National Fraud Initiative exercise. This has been based on the risk register and internal audit programme. Due diligence on financial standing is undertaken for significant contracts. The risk of material misstatement is low. No fraud identified The risk management process is considered by both the PCC and CC at a joint meeting with the corporate risk registers being considered at the Deputy's Board. Independent Audit Committee review the risk management strategy and approach. The risk registers also form part of the annual budget process.
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Disposal of Assets, Payroll and Expenses. Significant controls are in place in these areas accordingly.
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Dorset Police and Crime Commissioner and Chief Constable as a whole, or within specific departments since 1 April 2021? If so, please provide details	Yes – there have been three occurrences since 1st April 2021. 1. Superintendent breached the standards of professional behaviour relating to honesty and integrity. Claimed expenses that he was not entitled to. Officer was dismissed. 2. Officer was claiming for a higher tier pension for ill health retirement. He was found to have been dishonest and the force secured a prosecution against the PC for fraud and was dismissed.. 3. Current case– still under investigation – Grant Thornton have been made aware. Fraud and Corruption report Please also find the Fraud and Corruption report attached.

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Fraud risk assessment

Question	Management response
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	The risk register is discussed at the Deputy Chief Constables Board (Force) and Strategic Update Meeting (OPCC) and individual management boards. The framework is covered in the Annual Governance Statement. Corporate risk registers are presented Joint Leadership Board twice a year and to the Independent Audit Committee on a quarterly basis. An update on fraud and corruption investigations is presented to each meeting of the Independent Audit Committee.
5. Have you identified any specific fraud risks? If so, please provide details Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within Dorset Police and Crime Commissioner and Chief Constable where fraud is more likely to occur?	There have been no specific areas identified, although Theft and Fraud (by employee) is a priority risk for the Counter Corruption Unit. Quarterly meetings are held between the S151 officers, Alliance Audit, Insurance and Strategic Risk Management Dept and Professional Standards Department to look at themes and where process can be implemented to mitigate these risks. However, there have been no areas identified as material. Yes – Payroll. As such robust audit processes are in place in this area, with the latest internal audit providing a 'substantial' assurance level. No
6. What processes do Dorset Police and Crime Commissioner and Chief Constable have in place to identify and respond to risks of fraud?	Financial regulations are in place as well as robust recruitment processes. Invoices are paid through the financial system Agresso and has a two step process. Majority of supplier detail is confirmed prior to use. For commissioned services there is a tender process with support from the Force procurement specialist team. Professional Standards and internal audit have an information sharing arrangement. Routinely participate in the National Fraud Initiative exercise, with detailed analysis of any matches. There are polices in place on whistleblowing and arrangements in the code of corporate governance about roles and responsibilities. Processes are also in place for dealing with large amounts of cash. Fraud is an area covered by internal audit when undertaking their reviews.

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Fraud risk assessment

Question	Management response
7. How do you assess the overall control environment for Dorset Police and Crime Commissioner and Chief Constable, including: • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details	The Internal Audit plan is the prime method used to gain assurance on internal control processes. The procedure for setting the risk based internal audit plan includes liaison with key staff including s151s, consideration of Force risk registers and the draft is taken to the Independent Audit Committee (IAC) before being finalised. There is a process to allow it to be changed during the year to reflect changing circumstances. SWAP report quarterly to IAC and provide an overall audit opinion. The Annual Governance Statement (AGS) also considers the adequacy of internal control and the process for producing it considers all forms of assurance available. Reviewing effectiveness is considered in terms of the “3 lines of defence model”: 1 – direct management of financial processes and internal control measures- relate to the Force and reliance is therefore placed on the Force S151 officer for assurance. 2 – CFO’s , risk management and compliance – robust procedures are in place as described in the AGS. 3 – Internal Audit and IAC – processes exist to ensure internal controls are kept under review, weaknesses are identified and actions taken are monitored. There are effective counter fraud and corruption procedures in place with cohesive working arrangements between Professional Standards, Audit, Finance and Legal Services. Regular reports are provided to the executive on the effectiveness of arrangements with independent scrutiny provided by the internal auditors on any weaknesses identified, including regular review of the controls in place to prevent financial error or fraud. An Internal Audit review of Accounts Payable identified potential weaknesses in segregation of duties, for which remedial action is being taken.
8. Are there any areas where there is potential for misreporting? If so, please provide details	We are not aware of any. See above for reporting arrangements.

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Fraud risk assessment

Question	Management response
9. How does Dorset Police and Crime Commissioner and Chief Constable communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details	Ethical standards required for contractors is covered within the financial regulations. Due diligence is undertaken for all significant contracts and all contractors are expected to sign up to ethical standards. Commissioned Services within contract documentation. Theft and Fraud (by employee) is a priority risk for the Counter Corruption Unit. Required compliance with policing Code of Ethics for officers and staff. Ethics Committee sits regularly to debate "ethical dilemmas". There is also a Force Disclosure Policy (Whistleblowing Policy) which is published by the Counter Corruption Unit. Police Officers have a duty to report crime. All new employees are provided with information on our principles and the Code of Ethics and training is reinforced at departmental meetings and away days and is also included in our recruitment process. Learning the lesson bulletins and the outcomes of ethical discussions at the Ethics Committee and Ethics & Appeals Committee are also shared with OPCC employees. Monitoring of the Police and Crime Plan and associated performance data is undertaken on a weekly basis, with the participation of the PCC every four weeks, to ensure good practice is shared. Promotion and compliance with College of Policing's Code of Ethics. <u>Promotion and compliance of force values.</u> Regular updates to all officers and staff via the Force intranet on expected standards of behaviour, including updates on issues dealt with by the Professional Standards Department There are a variety of ways that concerns can be reported, including the whistleblowing line. No significant issues reported.

Fraud risk assessment

Question	Management response
10. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	Covert officer, payroll staff, purchasing and exchequer staff Covert posts are vetted to a higher level, and routinely monitored by Professional Standards Department. Payroll and purchasing and exchequer have necessary processes to ensure segregation of duties on higher risk activities, and are both subject to annual audit. Audit trails are available identifying which staff have input all transactions.
11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details How do you mitigate the risks associated with fraud related to related party relationships and transactions?	The Chief Executive writes to all Senior Officers to request the completion of a related party declaration. The Chief Executive is responsible for maintaining a policy on the business interests of the staff and office holders of the OPCC and also for maintaining a register of business interests. The Chief Constable is responsible for maintaining a policy on the business interests of the staff of the Force and also for maintaining a register of business interests.

Fraud risk assessment

Question	Management response
12. What arrangements are in place to report fraud issues and risks to the Police and Crime Commissioner and Chief Constable as 'those charged with governance'?	The risk register is discussed at the OPCC Strategic Update Meeting (SUM) at least quarterly. This ensures that the PCC and the Senior Leadership Team formally consider risks. Risk considerations are intrinsic to all discussions at the weekly SUMs. The Force risk registers are also considered at the Deputy's Board, which includes Chief Officers, Commanders and Heads of Departments. There is a direct link to the OPCC Monitoring Officer via the financial regulations. Independent Audit Committee review the risk management strategy and approach. The risk registers also form part of the annual budget process. A quarterly update report on Fraud Corruption is presented to the Independent Audit Committee.
How does the Police and Crime Commissioner and Chief Constable as 'those charged with governance' exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?	Risk management is considered by the Joint Leadership Board regularly.
What has been the outcome of these arrangements so far this year?	The risk of material misstatement is low. No fraud identified.
13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	Please refer to the Fraud and Corruption report attached. Complaints about the PCC have statutory process via the Police and Crime Panel and are reported quarterly. Complaints against police employees are handled in line with the relevant complaints legislation - with the most serious matters being referred to the IOPC as required. Complaints about OPCC employees are managed by the Chief Executive There is a separate process within the OPCC for complaints against the CC.
14. Have any reports been made under the Bribery Act? If so, please provide details	No

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Police and Crime Commissioner and Chief Constable as ‘those charged with governance’, is responsible for ensuring that Dorset Police and Crime Commissioner and Chief Constable's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Police and Crime Commissioner and Chief Constable as ‘those charged with governance’ as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does Dorset Police and Crime Commissioner and Chief Constable have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to Police and Crime Commissioner and Chief Constable's regulatory environment that may have a significant impact on the Police and Crime Commissioner and Chief Constable's financial statements?	Governance, financial regulations, professional codes of practice. The Director of Legal Services attends the Joint Leadership Board, which considers strategy for the Force and OPCC. Robust governance structure which is tested via internal audits. No
2. How is the Police and Crime Commissioner and Chief Constable as 'those charged with governance' provided with assurance that all relevant laws and regulations have been complied with?	Assurance is provided via the Annual Governance Statement and internal audit reports. Involvement of the Director of Legal Services in decision-making meetings also occurs.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details	No
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	None – other than those outlined in the notes to the accounts.

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Impact of laws and regulations

Question	Management response
5. What arrangements does Dorset Police and Crime Commissioner and Chief Constable have in place to identify, evaluate and account for litigation or claims?	Litigation and claims are dealt with by the Legal Department. A litigation report is presented to the Resource Control Board (which is joint between the PCC and CC) on a quarterly basis. There is also a detailed confidential meeting to look at the individual ongoing live cases. Every year we write to Senior Staff to ask for details of matters that might require provision or disclosure in our published accounts. The responses are discussed with the CFO and the accounting treatment agreed (e.g. accrual, provision, contingency, no action). Throughout the year, the PCC, CC and CFO's are kept informed of the progress of potential and actual claims through a formal meeting with the Legal Department to discuss the "sensitive issues log".
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No

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Related Parties

Matters in relation to Related Parties

Dorset Police and Crime Commissioner and Chief Constable are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Dorset Police and Crime Commissioner and Chief Constable;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Police and Crime Commissioner and Chief Constable;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Police and Crime Commissioner and Chief Constable or of any body that is a related party of the Police and Crime Commissioner and Chief Constable.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Dorset Police and Crime Commissioner and Chief Constable's perspective but material from a related party viewpoint then Dorset Police and Crime Commissioner and Chief Constable must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
1. Have there been any changes in the related parties including those disclosed in Dorset Police and Crime Commissioner and Chief Constable's 's 2020/21 financial statements? If so please summarise: • the nature of the relationship between these related parties and Dorset Police and Crime Commissioner and Chief Constable whether Dorset Police and Crime Commissioner and Chief Constable has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions	No
2. What controls does Dorset Police and Crime Commissioner and Chief Constable have in place to identify, account for and disclose related party transactions and relationships?	The Chief Executive of the OPCC writes to the Senior Management Team, Force Chief Officers and Independent Audit Committee members requesting them to complete a declaration for related parties. There is a requirement for officers and staff to fully disclose any business interests, which are held on a central register by Professional Standards Department.
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Business interests are considered and approved by line manager, a vetting process, and Professional Standards Department, including the Head of PSD.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	We don't operate outside of normal business unless: under emergency powers e.g. the pandemic when procurement rules were relaxed; or a major operation.

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Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Dorset Police and Crime Commissioner and Chief Constable will no longer continue?	There are 6 main factors considered when assessing going concern. They are:- • The current financial position; • The projected financial position; • The strength of the Balance Sheet; • Cash flow; • Corporate governance arrangements • The external regulatory and control environment. A formal assessment is presented to Resource Control Board and the Independent Audit Committee.
2. Are management aware of any factors which may mean for Dorset Police and Crime Commissioner and Chief Constable that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	No
3. With regard to the statutory services currently provided by Dorset Police and Crime Commissioner and Chief Constable does Dorset Police and Crime Commissioner and Chief Constable expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Dorset Police and Crime Commissioner and Chief Constable to cease to exist?	Dorset Police and Crime Commissioner and Chief Constable expect to continue to deliver statutory services for the foreseeable future.
4. Are management satisfied that the financial reporting framework permits Dorset Police and Crime Commissioner and Chief Constable to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Yes Yes

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Dorset Police and Crime Commissioner and Chief Constable, as 'those charged with governance' members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Dorset Police and Crime Commissioner and Chief Constable, as 'those charged with governance' to satisfy itself that the arrangements for accounting estimates are adequate.

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Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Pensions liability for the Police Pension Scheme and the LGPS scheme. The liability figures disclosed in the accounts are estimated figures that have been calculated by our pension actuaries using source data held by the Accounts Department and pension administrators. Asset valuation of the land and building assets held by the PCC. These figures are based on the condition of the properties and the market conditions in the area. These figures are provided by valuers that are independent to the PCC. There is uncertainty around the provision set aside, which is based on an estimate. The nature of the claims is that the amounts involved may fluctuate. All three areas have been considered for disclosure in Note 6 Assumptions made about the future and other major sources of estimation and uncertainty. **Pensions**: Sensitivity analysis shows that the changes would be significant. Therefore pensions has been disclosed in note 6. **Assets**: The professional advisors for the valuation of assets have advised that there is no material uncertainty as at 31st March 2022. Therefore no disclosure is required. **Assets**: The impact if the remaining life of building assets reduced by 1 year has been considered. This was below the materiality level (impact £24k v materiality threshold of £4.6m and so it has not been disclosed as the impact is not significant. **Provisions:** The total provision balance as at 31st March 2022 was £1.391m. A 10% increase would be £139k charge to the CIES. Materiality threshold is £4.6m and so the 10% increase would be below materiality. On this basis a disclosure is not required.
2. How does the Police and Crime Commissioner and Chief Constable's risk management process identify and address risks relating to accounting estimates?	Valuations are calculated by professional advisors, such as actuaries and valuers where appropriate. These valuations are subject to scrutiny to ensure robustness.

Accounting Estimates - General Enquiries of Management

Question	Management response
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Valuations are calculated by professional advisors in accordance with the applicable accounting standards, using their assessment of the most appropriate method. The instruction letter to the valuers sets out the requirements. Pension assumptions are reviewed and confirmed by the CFO's. Professional advisors on pensions also provide an independent review of the source data. The basis for asset valuations is checked to ensure consistency with prior years as applicable.
4. How do management review the outcomes of previous accounting estimates?	A year on year comparison is carried out to highlight and understand in year movement.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	The asset values used for the LGPS pension valuation is based on March actual asset data. This is a change from last year as February actual asset values were used with an estimate for March. The reason for this change is the developments in Russia and Ukraine. Asset valuation has been carried out as at 1st February, with a follow up request to determine changes up to the 31st March.

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Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Areas of clear specialism, such as premises valuation, valuation of financial instruments, and pensions valuation, are referred to professional experts in these areas
7. How does the Police and Crime Commissioner and Chief Constable determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	High level checks are applied to all external valuations provided to ensure that a degree of challenge is applied, and that the figures appear consistent and reasonable.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Chief Financial Officers provide high level review to key assumptions, valuations and provisions.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements.	Significant accounting estimates are reviewed within Finance before being considered by Chief Financial Officers. Monitoring and budget papers are discussed with management ahead of formal meetings, including testing the basis for estimations. Changes in accounting methods are considered by the Chief Financial Officer and presented to the Independent Audit Committee.

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	The split between the PCC Group and the CC. “Note 3: The Police and Crime Commissioner Group has had to make judgements about the allocation of expenditure between the Police and Crime Commissioner and the Chief Constable. The basis adopted was arrived at after considering the CIPFA Service Reporting Code of Practice and the Police Reform and Social Responsibility Act.”
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Valuations are provided by third parties and reasonableness checks are carried out on the data and figures e.g. through the budget monitoring process and year on year comparison work.
12. How is the Dorset Police and Crime Commissioner and Chief Constable, as 'those charged with governance’ provided with assurance that the arrangements for accounting estimates are adequate ?	Those charged with governance are supported by professionally qualified Chief Finance Officers who provide assurance on arrangements. This is supported by the Independent Audit Committee (IAC) who also receive reports from Internal Audit regarding the controls in place around source data. IAC reports any issues directly to those charged with governance after each meeting.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	The majority of the properties were inspected either internally or externally with the exception of 5 properties which were valued on a desktop basis. Measurement basis is dependent on the type of property: Operational property – carried at current value in their existing use. Non-property asset – depreciated historical cost Surplus assets – fair value Assets Held for Sale – Fair Value less costs to sell.	Valuation has been carried out in accordance with the RICS Valuation – Global Standards 2017. A year on year comparison of the figures, life and basis of valuation has been undertaken with significant variances and changes questioned.	NPS South West Limited	The valuers have confirmed that there was no material valuation uncertainty as at 31st March 2022. The valuations were performed as at 1st February 2022. A further report: the letter of assurance was received. This report captures updates that have occurred between the valuation date (1st February 2022) and the reporting date (31st March 2022). Assets useful lives are dependent on assumptions about the level of repairs and maintenance. The Police and Crime Commissioner Group have assessed that the repairs and maintenance is sustainable at the current level of spending. A review of the basis of valuation has also been undertaken to determine it's appropriateness against the asset in question.	No

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	Assets are depreciated monthly over their useful lives.	Useful lives are estimates, provided by experts. These are considered as part of the Capital MTFS. In addition the valuers provide the useful lives at every valuation.	NPS South West Limited and budget holders.	When assets are purchased a number of possible purchase options are considered which includes estimation on costs and life of the asset. All business cases are considered by the appropriate board.	No
Valuation of defined benefit net pension fund liabilities	Barnett Waddingham provide a standard set of assumptions both demographic and financial.	The valuation figures are prepared in accordance with IAS19 which complies with the Technical Actuarial Standard 100: Principles for Technical Actuarial Work. Additional checks have been introduced including a year on year check of the figures and a comparison of the reports.	Barnett Waddingham	The assumptions have been accepted following consideration by the S151's. Sensitivity analysis information is shown in the accounts.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
PFI Liabilities	Accounting models for each PFI are used to estimate the liabilities over the life of the arrangements.	A review of the estimated liability has been undertaken before year end.	No	The arrangements and models have been in place since 1999 and 2006 and assumed to be correct when inherited. The models show the revenue costs and liabilities for each year over the term of the arrangements. The revenue costs are updated annually with the actual unitary charges.	No – the accounting method has remained the same.
Finance lease liabilities	An accounting model is used to estimate the liability over the life of the arrangement.	A review of the model against the balance sheet has been undertaken.	No	The degree of uncertainty has been assessed as low as the arrangements in place have not changed since it's agreement in 1994.	No

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Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Fair value estimates	Fair value templates are provided by Arlingclose and are used to assess the fair value of the financial instrument.	These are standard templates shared to all clients by Arlingclose who are authorised and regulated by the Financial Conduct Authority. The accounting treatment of each instrument has been established with reference to the IFRS 9 Code and consultation with the Treasury Advisor. A reasonableness check on the outcome of the FV is undertaken using knowledge from the quarterly benchmarking meetings with Arlingclose and in year performance of returns.	Arlingclose Limited	The market volatility present due to Covid-19 and developments in Ukraine and Russia as at 31st March 2022 has had an impact on fair values. However, due to the type of investments and the level of balances held, the fair value calculation is not material. Therefore the degree of uncertainty is assessed as low.	No

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	Information is received on new and paid transactions from the relevant departments. These figures are compared with the provision held as at 31st March 2020. A check is also completed against general ledger where possible. Explanations for large variances are sought from the appropriate departments.	Estimations are provided by Departments independent of the Alliance Finance team. A year on year comparison is undertaken and significant changes questioned. The S151's are also engaged in reviewing the provision made.	Legal Department	The Legal Team review the likelihoods and estimated cost throughout the year on a case by case basis using their knowledge of the case.	No
Accruals	Commitments shown in Agresso are used to inform the year end accruals. Information is also sought from the budget holders.	The forecasting during the year is used as a measure against the outturn position. Variances are reviewed and explained through individual department narrative reports and the outturn report.	Budget Holders	Commitments are based on orders for goods and services from other organisations. These commitments are monitored through the year by the Alliance Finance Lead and Budget Holder. Any variations to the estimates are captured through the forecasting process.	No

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Informing the audit risk assessment for Dorset Police and Crime Commissioner and Chief Constable 2021/22

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Climate Change and Wider Global Issues

Matters in relation to Going Concern

In addition to the issues outlined in other sections, the audit team have deemed it appropriate to include inquiries regarding the impact of climate change, and wider global issues such as the Russian invasion of Ukraine, may have on the Police and Crime Commissioner and Chief Constable's financial statements. These global issues are increasingly impacting the environment of local government bodies, and the inquiries in the following page relate to how these issues are expected to impact thePolice and Crime Commissioner and Chief Constable's financial statements, risk management assessment, and medium term financial plan.

Climate Change and Wider Global Issues

Question	Management response
1. Has Dorset Police and Crime Commissioner and Chief Constable considered the impact that climate change on the financial statements during current year and future years?	See below for future years.
2. How has the impact of climate change together with other emerging global issues such as the war in Ukraine been taken into account by the Police and Crime Commissioner and Chief Constable as part of it's medium term financial plan? Additionally, how have these issues been considered as part of the risk management arrangements?	The 2023/24 medium term financial strategy will address the impact of financial issues arising from emerging and anticipated global issues, including increasing prices. Climate change implications have been considered and, where practicable, been taken account of. In particular a move to increased renewable energy, gradual move towards a more sustainable vehicle fleet etc. The MTFS is currently being developed in advance of the 2023/24 budget being set in February 2023.
3. How has the Police and Crime Commissioner and Chief Constable addressed the impact of the significant increases in energy costs, inflation and payroll costs within its financial strategy?	The 2023/24 medium term financial strategy will address the impact of the significant increases anticipated. This is currently being developed in advance of the 2023/24 budget being set in February 2023.

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Question	Management response
4. How has the Police and Crime Commissioner and Chief Constable considered the following specific risks as a result of climate change within its current financial statements and future liabilities: a. Increased levels of insurance premiums due to the impact of additional claims arising from climate change	We are currently in a long term insurance agreement due to expire 2024. The insurers consider our claims profile as well as the wider context when determining premiums. Environmental issues are one of many factors they consider, so would not be able to be singled out. For our own in house claims costs, we have set our appetite with our Insurance excess levels. No Dorset police stations are in flood areas, so that risk is minimal and we have not experienced increased claims due to high winds etc. This is not explicitly singled out over any other category of insurance risk.
b. The risk of increased borrowing rates available to the Police and Crime Commissioner and Chief Constable, as a result of global issues, into it's cashflow forecasting and treasury management strategy	The impact of increased interest rates on borrowing are being taken account of in the 23/24 MTFS. They are reflected in cashflow forecasting, and current year financial monitoring and the latest treasury management strategy
c. How has the valuer taken account of the impact of climate change in the valuation of properties, for example to ensure that valuations reflect the cost to bring buildings up to the latest standards	The valuations have been prepared in accordance with the RICS Valuation Global Standards 2021, the RICS Valuation Global Standards 2017 – UK National Supplement and Depreciated Replacement Method of Valuation for Financial Reporting, 1st Edition.
d. The replacement of vehicles and equipment to ensure that they meet the current and known future energy efficiency requirements	A longer term plan is in place to meet future energy efficiency requirements for vehicles, and all new purchases meet current energy efficiency requirements. Energy efficiency is a key consideration in replacement equipment, and factored into procurement considerations.
e. An assessment of future credit losses for any long terms debtors	Covered by bad debt provision. None specifically related to climate change.
f. Any additional provisions, contingencies or onerous contracts that might be required	Covered within those clauses in the financial statements. None specifically related to climate change.
5. Are there any other specific considerations that the Police and Crime Commissioner and Chief Constable has made in respect of climate change or evolving global issues?	The asset valuation for the LGPS was taken as at 31 March 2022 rather than the 28 February 2022 due to the volatility in the market as a consequence of the war in Ukraine.

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AGENDA NO: 12

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 13th December 2022

FOIA OPEN:

TITLE OF REPORT: Audit Action Report – Devon and Cornwall and Dorset

REPORT BY: Jo George (Senior Audit Manager)

PURPOSE OF THE REPORT:
To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	
Internal Audit	**X**
External Audit	
Financial reporting	
Other matter *(please specify here)*	
Appendices (*please specify the number)*	**1**

RECOMMENDATIONS:
The Independent Audit Committee is asked to:

Review the Report	
Consider the Report	**X**
Note the report	
Other (please specify here)	

1. BACKGROUND INFORMATION

1.1 The term of reference of the Independent Audit Committee gives specific responsibility to consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

1.2 The Internal Audit Plan is set out and agreed with the Section 151 Officers of the four corporations sole and reviewed at the April meeting of the Independent Audit Committee each year.

1.3 On finalisation of an audit each action is agreed and allocated an action owner. A target end date is also agreed between the auditor and the owner which sets the timescale for completion.

1.4 All audit actions are prioritised according to the definitions captured below:

Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Findings that require attention.

1.5 The flowchart in Appendix A shows how audit actions are monitored and reported from a Governance perspective. The actions and updates are monitored by the Executive via the Resources Board (D&C) and the Resource Control Board (Dorset) on a quarterly basis.

2. INTERNAL AUDIT ACTIONS

2.1 The table below shows the total number of audit actions raised in the six-month period from 1st April 2022 and 28th December 2022.

	TOTAL	Priority 1	Priority 2	Priority 3
Breakdown from SWAP's Audit Update Report	**32**	**4**	**16**	**12**

2.2 The table below sets out a summary of the number of all overdue audit actions as at 16th November 2022, currently being progressed.

Internal Audit Actions (Appendix A)	TOTAL	Priority 1	Priority 2
Past Original Target Date - Revised Target Date Not Yet Due	10	0	10
Actions that are overdue – Awaiting new target dates	4	2	2
Action Updates reported to Prism Board – Voyager Project (Niche) Actions overdue	6	3	3
Finance & Overtime ERP Agresso Actions - the timelines for implementation of the Agresso Upgrade are overdue.	5	0	5
Total	**25**	**5**	**20**

3. OVERDUE ACTIONS

3.2 Actions overdue – Awaiting new target dates
There are a total of 4 audit actions from the ICT Disaster Recovery Audit that are awaiting a new revised target date.
The current processes for the consideration of ICT disaster recovery and creation of Business Continuity Plans are being reviewed by both forces.

3.3 Learning from the power outage business continuity exercises of Op vertex (Dorset) and Exercise Lemur (D&C) will be considered and actions taken forward as part of this process. Ops Planning department which was previously an alliance department has recently split geographically with a Superintendent now allocated responsible for Dorset arrangements and a separate Superintendent with responsible for D&C arrangements.

3.4 The plan is being managed via the Technology Board, so a governance oversight board is in place. The executive has been advised to seek assurance from the Technology Board to ensure they are mitigating the risks effectively.

3.5 Project Voyager (Niche v6 Implementation Audit Actions – Reported to Prism Board
It should be noted that Niche v6 has now gone live in both forces. Therefore, the audit actions not yet closed off will have been discussed at the Prism Board before the decision to go live was taken. Evidence will now be gathered to support the closure of these actions.

3.6 Agresso ERP Actions – Overdue
Due to known delayed timescales of the system upgrade requirements to the Agresso ERP System. Interim manual controls have been implemented to mitigate the inherent risks identified in the audit reports. The Head of Finance is working with ICT to progress this project.

Jo George
Senior Audit Manager
17th November 2022

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Appendix A

AUDIT ACTION MONITORING & REPORTING PROCESS

ALLIANCE AUDIT TEAM

Monitoring of Agreed Audit Actions (Priority 1, 2 and 3) undertaken by Alliance Audit Team

Monitor – Record Evidence – Close Audit Actions

(Verified and assured by SWAP, which feeds into the overall annual opinion provided by SWAP)

DORSET APPROACH

STEP ONE

Report of Priority 1 and Priority 2 Outstanding Agreed Audit Actions to Resources Control Board

(With requests for Extensions to Target Dates)

Used for discussion and oversight purposes.

DEVON & CORNWALL APPROACH

STEP ONE

Report of Priority 1 and Priority 2 Outstanding Agreed Audit Actions to D&C Chief Finance Officer and OPCC Treasurer

(With Requests for Extensions to Target Dates)

Used for discussion and oversight purposes.

STEP 2

Report to Resources Board – Significant Risk Areas Not Resolved or others flagged by CFO for escalation.

Report Unresolved Risk Areas for consideration of inclusion in the Operational / Strategic Risk Register

Six Monthly Report to Audit Committee – Review of the Process and details of risk areas not completed within a year of their planned completion date.

Key: Blue= Dorset, Green= D&C, Grey= Alliance

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AGENDA NO: **13**

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 13 December 2022

FOIA OPEN

TITLE OF REPORT: PSAA Auditor Appointment Process

REPORT BY: Karen James – Head of Audit, Insurance and Strategic Risk Management

PURPOSE OF THE REPORT:
To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	
Internal Audit	
External Audit	X
Financial reporting	
Other matter *(please specify here)*	
Appendices (*please specify the number)*	

RECOMMENDATIONS:
The Independent Audit Committee is asked to:

Review the Report	
Consider the Report	X
Note the report	
Other (please specify here)	

1. BACKGROUND INFORMATION

1.1 Members will recall the PSAA process for the appointment of external auditors was presented to the meeting of the 27 September 2022.

1.2 In accordance with that timetable the PSAA are now consulting on their proposed audit appointment from 2023/24.

1.3 The original proposal by the PSAA is to appoint Bishop Fleming as the auditor for Devon and Cornwall Police and Dorset Police for five years from 2023/24.

1.4 It appears that Bishop Fleming was the proposed auditor for all Forces in the Region.

1.5 Subsequently the PSAA have written to Devon and Cornwall Force and OPCC to propose an alternative audit provider for them. This proposed change would have implications for Dorset Police as well.

1.6 Discussions are ongoing with the PSAA.

2. BISHOP FLEMING

2.1 Bishop Fleming is a new supplier under the PSAA arrangement and have secured a 3.75% share of the tendered work, which equates to less than 5% of the business of Bishop Fleming.

2.2 Bishop Fleming is a top 30 UK accountancy firm, providing audit, accountancy, tax and business consultancy services to both the public and private sectors. They have extensive experience working with public sector organisations in the housing, education, charity and healthcare sectors along with a number of local authority subsidiaries.

2.3 There does not appear to be any previous experience in auditing the Police sector; however, the PSAA are satisfied that Bishop Fleming have met all the core requirements for appointment and the audit team have 'sufficient prior experience in delivering public sector audits from their time in other auditing firms.'

2.4 Bishop Fleming has 37 partners and around 500 staff working from 7 offices across the Southwest and West Midlands.

3. MOVING FORWARD

3.1 To improve the efficiency of the audit process it was hoped that the auditors appointed to our pension providers would be the same as appointed to the Force. This does not appear to be the case.

3.2 Summarised below is a table showing the proposed auditors for each accounting year going forward, pending the outcome of the current conversation with the PSAA.

Year of accounts	Auditor
2020/2021	Grant Thornton
2021/2022	Grant Thornton
2022/2023	Grant Thornton
2023/2024	Bishop Fleming
2024/2025	Bishop Fleming
2025/2026	Bishop Fleming
2026/2027	Bishop Fleming
2027/2028	Bishop Fleming

3.3 We will be seeking early engagement with the appointed auditor to ensure that security vetting is achieved for new personnel at the earliest opportunity to facilitate a timely auditing process.

3.4 In line with the published process, the final confirmation of auditor appointment for 2023/24 will be made on or before the 31 December 2022.

4. SCALE OF AUDIT FEES 2023/24

4.1 Formal consultation on audit fees applicable for the 2023/24 accounts will take place in Autumn 2023; however, following the procurement process, the PSAA have advised opted in bodies to anticipate a 150% increase in fees.

4.2 The PSAA have also responded to client feedback and made amendments to the contract for audit services; the most notable being payment terms linked to delivery stages of an audit and additional contract management measures.

4.3 The milestone-based payment points are linked to the audit delivery:

- Production of the previous year's Auditors Annual Report – unless 1st year as new auditor.
- Production of the draft Audit Plan to Audited Body, will set out the auditor's plan and timetable.
- Planned hours (50% complete)
- Planned hours (75% complete)

4.4 Each stage would attract payment of 25% of the fees.

4.5 Following consideration of any objections, final appointments will be confirmed on or before the 31 December 2022.

25 November 2022