

Police Authority 17 February 2012



Devon & Cornwall
Police Authority

**MEDIUM TERM FINANCIAL STRATEGY
2012-13 TO 2015-16
AND
ANNUAL BUDGET 2012-13**

The Medium Term Financial Strategy : 2012-13 to 2015-16

Introduction to Medium Term Financial Strategy	Page
Police Authority Mission	1
Revenue Strategy	
Medium Term Financial Strategy : Summary of Funding Changes and Council Tax	2
Medium Term Financial Strategy : Revenue Movements	3 - 4
Subjective Analysis	5
Staffing Analysis	6
Specific Grants	6
Balances, Reserves and Provisions	
Balances, Reserves and Provisions: Summary	7 - 10
Sensitivity of Budget Assumptions Resilience	11
Partnership Funding	
Partnership Funding 2012-13	12
Council Tax	
Council Tax Information and Precept	13
Capital Strategy	
Overview of the four Year Capital Programme	14 - 15
Summary and Detailed Capital Programme	16 - 18
Prudential Indicators	19
Impact of Budget Decisions	
Balances, Reserves and Provisions: Details	20 - 24
VFM statement	
VFM statement	25 - 27
Treasury Management Strategy	
Treasury Management Strategy	28 - 46
Treasurers Report	
Available separately on request	

The Police Authority Mission

To ensure the residents of and visitors to Devon, Cornwall and the Isles of Scilly recognise that they are receiving an excellent service from the Police that is affordable, effective and fair.

Our priorities are



What will success look like?

Against the backdrop of a 20% real terms reduction in central funding over four years of the 2011 Comprehensive Spending Review the Police Authority and the Force have the joint aims:

- to continue to cut crime & catch criminals
- to improve victim satisfaction
- to maintain visibility & continue to engage communities
- to protect people from harm

Our objective is to see improvement in the first three of the above outcomes whilst maintaining the last.

Financial Priorities

Within the constraints of the financial settlement arising from the governments Comprehensive Spending Review, the Police Authority's and the Force's financial priorities are:

- In a time of financial constraint, maximising value for money, so that we can ensure that our priorities are met;
- Maintaining high standards of financial management through close monitoring of expenditure and the economic environment to ensure the Police Authority reacts appropriately to changing financial circumstances;
- Continuing our strong track record of financial planning through our current Medium Term Financial Strategy and beyond.

Police and Crime Plan 2013-14 Onwards

During 2012-13 new arrangements will come into place to hold the police to account. On 15th November a Police and Crime Commissioner will be elected for Devon and Cornwall who will be accountable for how crime is tackled in the area. The Commissioner will be responsible for the Police and Crime Plan and the funding of that plan including the raising of the police element of the council tax from 1st April 2013 onwards. This medium term financial strategy sets the council tax and the budget for 2012-13 and provides an outline plan for subsequent years. The outline plan will be updated in the Police and Crime Plan 2013-14 which will be published by 31 March 2013.

Summary of Funding Changes and Calculation of Council Tax Requirement

	2011-12 £000	2012-13 £000	2013-14 £000	2014-15 £000	2015-16 £000
Council Tax Increase	0.00%	2.00%	2.60%	2.60%	2.60%
Gross Annual Expenditure	308,915	294,161	291,085	292,140	291,010
Appropriation to/(from) reserves	(4,894)	939	1,381	(1,598)	(1,859)
Gross Budget Requirement	304,021	295,100	292,466	290,542	289,151
Funding before Council Tax					
Police Grant	(118,940)	(108,062)			
RSG (excluding Freeze Grant)	(17,067)	(1,338)	(184,550)	(179,850)	(175,658)
NNDR	(55,213)	(69,003)			
Council Tax Freeze Grant 2011-12	(2,392)	(2,392)			
Central Government Grants	(9,539)	(9,435)	(1,899)	(1,849)	(1,849)
Total Home Office Funding	(203,151)	(190,230)	(186,449)	(181,699)	(177,507)
Percentage change		-6.4%	-2.0%	-2.5%	-2.3%
Surplus on Council Tax Collection Fund	(624)	(1,507)	(200)	(200)	(200)
Other income	(4,552)	(5,100)	(4,900)	(5,000)	(5,000)
Council Tax Freeze Grant 2012-13		0	0	0	0
Total Funding before Council Tax	(208,327)	(196,837)	(191,549)	(186,899)	(182,707)
Percentage change		-5.5%	-2.7%	-2.4%	-2.2%
Council Tax Requirement	95,694	98,263	100,917	103,643	106,444

Revenue Movements

	<----- CSR 2010 ----->			
	2012-13 £000	2013-14 £000	2014-15 £000	2015-16 £000
Gross Budget Previous Year	304,021	295,100	292,466	290,542
External Funding Changes				
Change in other income	548	(363)	100	0
	<u>548</u>	<u>(363)</u>	<u>100</u>	<u>0</u>
Inflation				
Full-year effect pay awards	0	0	985	995
Provision for Pay and Price Increases	1,840	2,860	2,800	5,660
Flat-rate increase for staff paid less than £21k per year	500	200	0	0
	<u>2,340</u>	<u>3,060</u>	<u>3,785</u>	<u>6,655</u>
Pay Commitments				
Increments	2,352	2,100	2,000	1,900
National Insurance	125	0	0	0
Police Staff Pensions Actuarial Review	205	0	0	0
Turnover Allowance	500	0	0	0
Winsor Changes	(1,600)	(1,800)	(700)	0
Additional Bank Holidays	(150)	(525)	175	0
Rent & Housing Allowances / Competency Based Payments	(422)	(300)	(300)	(300)
	<u>1,010</u>	<u>(525)</u>	<u>1,175</u>	<u>1,600</u>
Non-Pay Commitments				
Interest Receipts	(243)	35	(424)	(406)
Interest Payments	(53)	0	0	0
Minimum Revenue Provision (based on planned capital expenditure)	273	85	15	0
Major Equipment Replacement	(75)	(22)	(184)	0
Resource Management Unit	33	0	0	0
Forensic Medical Examiners Contract	90	0	0	0
Confidential Environment	125	0	0	0
NPIA Charges	140	150	150	0
Helicopter Maintenance	285	0	0	0
Devon Property Store	8	(66)	0	0
Firearms Licensing income profile	120	164	(120)	0
Job Evaluation	80	(60)	2,507	0
Other minor changes	0	0	0	0
Provision for unidentified commitments	0	1,000	1,000	1,000
	<u>783</u>	<u>1,286</u>	<u>2,944</u>	<u>594</u>
Revenue Costs Funded from Reserves				
Core Programme revenue implementation costs	(528)	(627)	(131)	(40)
Job Evaluation revenue implementation costs	325	150	585	(655)
Additional Severance costs	(4,395)	0	0	0
Estates Development	172	(54)	(101)	388
Police Authority Transition	233	(233)	0	0
	<u>(4,193)</u>	<u>(764)</u>	<u>353</u>	<u>(307)</u>
Changes in appropriations to fund and reserves	<u>5,833</u>	<u>442</u>	<u>(2,979)</u>	<u>(261)</u>
Gross Budget before Savings	310,342	298,236	297,844	298,823

Revenue Movements

<----- CSR 2010 ----->				
	2012-13 £000	2013-14 £000	2014-15 £000	2015-16 £000
Identified Savings and Re-investment				
Reduction in Police Officer Numbers ¹	(6,200)	(6,500)	(6,600)	(6,600)
Reduction in Police Staff Numbers ²	(6,574)	(900)	(900)	(3,500)
Non-Pay Budget Reductions ³	(3,418)	(858)	(827)	28
	<u>(16,192)</u>	<u>(8,258)</u>	<u>(8,327)</u>	<u>(10,072)</u>
Further Savings to be identified	0	163	0	0
Reinvestment ⁴	950	2,325	1,025	400
	<u>(15,242)</u>	<u>(5,770)</u>	<u>(7,302)</u>	<u>(9,672)</u>
Total Net Savings				
	<u>295,100</u>	<u>292,466</u>	<u>290,542</u>	<u>289,151</u>
Gross Budget Requirement				
Specific Grants	(9,435)	(1,899)	(1,849)	(1,849)
External Income	(5,100)	(4,900)	(5,000)	(5,000)
Net Budget Requirement	<u>280,565</u>	<u>285,667</u>	<u>283,693</u>	<u>282,302</u>
Savings Plan and Re-investment 2012-16				
1. Reduction in Police Officer Numbers / Rank Profile	(6,200)	(6,500)	(6,600)	(6,600)
2. Reduction in Police Staff Numbers				
Station Enquiry Review	(245)			
Administration Review	(270)			
Reviews Implemented	(3,722)			
Reviews in Formal Consultation	(2,337)	(100)		
Savings from Police Staff Reviews		(800)	(900)	(3,500)
3. Non-Pay Budget Reductions				
ICT Budget Savings	(1,650)	(175)	(16)	
Command and Control System Licences		(350)		
Vehicle / Travel Reductions	(200)	(200)	(200)	
External Training and Conferences	(250)			
FM Contracts : Cleaning	(350)			
FM Contracts : HQ Site & Courier	(100)			
Corporate Communications	(150)			
Estates Strategy	(96)	(203)	(306)	28
Forensics	(200)			
Police Reports	(100)			
Specialist Equipment	(100)			
Uniforms			(100)	
Other Locally Managed Budgets	(152)		(205)	
Police Authority Budget	(70)	70		
	<u>(16,192)</u>	<u>(8,258)</u>	<u>(8,327)</u>	<u>(10,072)</u>
Total Identified Savings				
4. Reinvestment	950	2,325	1,025	400
Police Officer Recruitment	<u>(15,242)</u>	<u>(5,933)</u>	<u>(7,302)</u>	<u>(9,672)</u>
Net Change from Savings and Re-investment				
5. Use of Reserves - See Detailed Analysis				
Workforce Modernisation Reserve	1,272	1,482	(1,310)	(655)
Helicopter Replacement Reserve	250	250	250	250
Estates Development Reserve	(112)	(58)	43	(345)
Programme & Projects Reserve	(798)	(171)	(40)	0
Police Authority Transition Fund	(163)	0	0	0
	<u>449</u>	<u>1,503</u>	<u>(1,057)</u>	<u>(750)</u>
Revenue Smoothing Fund - Planned	(450)	(72)	(141)	(309)
Revenue Smoothing Fund - Investment	940	(50)	(400)	(800)
Total Use of Reserves	<u>939</u>	<u>1,381</u>	<u>(1,598)</u>	<u>(1,859)</u>

Subjective Analysis 2012-13

Line Ref		2011-12 Budget £000	2012-13 Budget £000
Constabulary			
(1)	Staff Costs - Police Officer	173,960	168,173
(2)	Staff Costs - Police Staff and PCSO	70,603	66,382
(3)	Other Employee Expenses	9,200	4,180
(4)	Total Employee Costs	253,763	238,735
(5)	Premises	11,620	11,681
(6)	Transport	6,746	7,010
(7)	Supplies and Services	29,266	28,462
(8)	Third Party Payments	3,491	4,446
(9)	Capital Financing	2,456	2,676
(10)	Total Gross Revenue Expenditure	307,342	293,010
(11)	Other Income	(4,362)	(5,263)
(12)	Interest Receipts	(195)	(438)
(13)	Specific Government Funding (Detailed analysis Page 6)	(11,931)	(9,435)
(14)	Constabulary Budget Requirement	290,854	277,874
Police Authority			
(15)	Employees	696	567
(16)	Premises	85	77
(17)	Transport	70	37
(18)	Supplies and Services	327	253
(19)	Audit Fees	147	92
(20)	Members Allowances	253	155
(21)	Police Authority Budget Requirement	1,578	1,181
Police and Crime Commissioner (PCC)			
(22)	Employees	0	367
(23)	Premises	0	28
(24)	Transport	0	16
(25)	Supplies and Services	0	78
(26)	Audit Fees	0	82
(27)	Members Allowances	0	0
(28)	PCC Budget Requirement	0	571
(29)	Total Budget Requirement before Reserves	292,432	279,626
(30)	Contribution to / (from) Reserves	(4,894)	939
(31)	Base Budget	287,538	280,565

Staffing Analysis (FTE)

Police Officers :	31st March 2012		3,215
	- Planned Changes 2012-13	(135)	
	- Planned Changes 2013-14	(145)	
	- Planned Changes 2014-15	(135)	
	- Planned Changes 2015-16	<u>(150)</u>	
			(565)
			<u>2,650</u>
PCSO's :	31st March 2012 to 31st March 2016 (including 6 externally funded)		<u>362</u>
Police Staff :	31st March 2012		1,770
	- Planned Reductions 2012-13	0	
	- Planned Reductions 2013-14	(35)	
	- Planned Reductions 2014-15	(35)	
	- Planned Reductions 2015-16	<u>(135)</u>	
			(205)
	31st March 2016		<u>1,565</u>

All staffing figures are provisional. The Police Authority has an agreed strategy to reduce police officer numbers through not replacing officers when they move to other Forces and through requiring officers to retire when they have achieved 30 years of pensionable service. Funding exists within the budget to mitigate the reduction in overall staffing numbers. Plans to mitigate the reduction in staffing numbers are not finalised and may impact on Police Officer, PCSO or Police Staff numbers.

Specific Grants 2012-13

	£000	£000
Government Funded Initiatives		
Counter Terrorism *	1,650	
Council Tax Replacement Grant 12-13 (one-off : not taken in this option)	0	
Neighbourhood Policing Fund (PCSO's)	7,485	
Proceeds of Crime Act	<u>300</u>	
		<u>9,435</u>

Balances, Reserves and Provisions

The forecast closing figures for general balances, reserves and provision are as follows:

Table 1

As at 31 March	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000
General Balances	6,198	6,198	6,198	6,198	6,198
Earmarked Revenue Reserves	19,810	18,523	19,651	17,766	13,957
Capital Reserves	3,707	4,906	20,746	10,928	4,726
Provisions	2,581	1,886	1,886	1,886	1,886
Total	<u>32,296</u>	<u>31,513</u>	<u>48,481</u>	<u>36,778</u>	<u>26,767</u>

The Purpose of Balances, Reserves and Provisions

General Balances

The Police Authority maintains general balances to provide a contingency to cushion the impact of unexpected events or emergencies. It is particularly important for Police Authorities to maintain a reasonable level of balances given that policing services need to provide an immediate response to unforeseen events. In addition, general balances help the Authority manage the impact of uneven cash flows and avoid the need for temporary borrowing. Finally they supplement the earmarked reserves and provide the Authority with some level of flexibility to deal with budgetary uncertainty.

The current policy of the Authority is to set its general balances at approximately 2% of the net revenue budget. Table 2 shows the forecast change in balances as a percentage of net revenue budgets over the next four years.

Earmarked Revenue Reserves

The Police Authority's earmarked reserves may be grouped as follows

- (i) **Reserves set aside to fund investment in assets and service transformation** – the Authority has reserves that have been set aside specifically to fund future capital expenditure. In addition reserves are set aside to pump prime investment in new developments that cannot be capitalised.
- (ii) **Reserves for exceptional costs** – the workforce modernisation reserve is intended to mitigate/phase the impact of implementing the job and grading review.

- (iii) **Reserves for unpredictable costs** – the Authority has a number of reserves set aside for unpredictable costs, the largest of which is the Major Operations Reserve.
- (iv) **The revenue smoothing fund** - this reserve will be used to support the revenue budget and smooth out the impact of the reduction in central government funding.

Specific Capital Reserves

These reserves hold capital grants and capital receipts that have not yet been used to finance the capital programme. They can only be used to fund future capital expenditure.

Provisions

The Police Authority has a provision to meet the future cost of self-insured claims. The level of this provision is maintained according to an assessment of the cost of meeting future claims. A provision is also held to meet the cost of known termination payments.

Table 2

As at 31 March		2012 £000	2013 £000	2014 £000	2015 £000	2016 £000
A	Total Balances, Reserves & Provisions	32,296	31,513	48,481	36,778	26,767
	Reserve held for identified future costs:					
	Investment in Assets and Service Transformation					
	Revenue Reserves	9,189	6,303	6,071	6,037	3,992
	Capital Reserves	3,707	4,906	20,746	10,928	4,726
	Reserves for Exceptional Costs	4,774	6,046	7,528	6,218	5,563
	Reserves for Unpredictable Costs	2,553	2,390	2,390	2,390	2,390
	Revenue Smoothing Fund	3,294	3,784	3,662	3,121	2,012
	Provisions for known liabilities	2,581	1,886	1,886	1,886	1,886
B	Sub-total	26,098	25,315	42,283	30,580	20,569
	General Balances (A-B)	6,198	6,198	6,198	6,198	6,198
	General Balances as a percentage of The Gross Budget Requirement	2.10	2.10	2.11	2.13	2.14

Full details of balances, reserves and provisions are provided on pages 20 to 24.

Table 3

Budgeted Movement in Balances and Reserves	2011-12	2012-13	2013-14	2014-15	2015-16
	£000	£000	£000	£000	£000
Earmarked Reserves					
Workforce Modernisation Reserve	(3,018)	1,272	1,482	(1,310)	(655)
Helicopter Replacement Reserve	250	250	250	250	250
Estates Development Reserve	(100)	(112)	(58)	43	(345)
Programme & Projects Reserves	(1,326)	(798)	(171)	(40)	0
Police Authority Transition Fund	0	(163)	0	0	0
Revenue Smoothing Fund	(700)	490	(122)	(541)	(1,109)
Net Budgeted Contributions to/(from) Earmarked Reserves	(4,894)	939	1,381	(1,598)	(1,859)
Capital Expenditure Financed from Revenue Reserves		<u>(2,226)</u>	<u>(253)</u>	<u>(287)</u>	<u>(1,950)</u>
Total Movement Earmarked Reserves		(1,287)	1,128	(1,885)	(3,809)
Capital Reserves					
Capital Grant		2,800	2,600	2,600	2,600
Capital Receipts		4,210	21,500	3,725	3,645
Financing Capital Expenditure		(5,811)	(8,260)	(12,798)	(12,447)
Use of receipts to repay borrowing				<u>(3,345)</u>	
Total Movement Capital Reserves		1,199	15,840	(9,818)	(6,202)
Provisions					
Use of redundancy provision		<u>(695)</u>			
Total Movements in Balances and Reserves		(783)	16,968	(11,703)	(10,011)

Risk Management

For 2012-13 the main risk to the financial strategy is the scale of the budget reductions required and the operational and financial consequences that may arise from the budget reductions. This risk and the other significant risks in the strategy are set out below:

- delivery of £16.2m of planned savings in 2012-13
- uncertainty with regard to funding in 2013-14 and beyond – the Home Office have indicated that they will review the funding formula for 2013-14. This means that the funding forecasts and therefore the budget forecasts for 2013-14 to 2015-16 are indicative only
- 2015-16 is beyond the current Comprehensive Spending Review period and forecasts for this year are more uncertain than those for 2013-14 and 2014-15. Figures provided in the Chancellors Autumn Statement 2011 have been used to provide a broad indication of likely funding
- the scale of change in officers working practices and employment terms and conditions will follow the Winsor review
- the complexity of the Human Resources implications of a major change programme

- estimates included in the medium term financial strategy for inflation
- exceptional demands placed upon the service, particularly from major incidents
- delivery of major capital schemes delayed or unsuccessful
- achievement of capital receipts
- impact of interest rate movements on investments/borrowings from the levels assumed in the treasury management strategy
- changes in economic conditions and potential influence on criminal activity
- changes in funding as a result of changing central government policy and developments in the national economic situation

Both the Authority and the Force have well developed risk management frameworks and sound systems of financial control. The Audit Commission have reported that "a good financial management framework is in place, supported by sound procedures". The risks recorded on the Force's risk register have been taken into account when setting departmental budgets.

The Authority and the Force have a good track record of managing budget savings, however the scale of service transformation and the complexity of the human resources issues mean that robust financial monitoring and reporting mechanisms will be required for the duration of this strategy.

Sensitivity of Budget Assumptions

An assessment of the sensitivity of 2012-13 budget to the risks identified above has been conducted. To do this it has been necessary to assess not only the mitigation in place but also the probability that attaches to each risk crystallising in additional costs or benefits. The results are set out on page 11.

Adequacy of Reserves and Balances

The major areas of risk have been quantified and valued as shown on page 11. The assessed impact in 2012-13 is £2.139m in total. This compares to forecast general balances of £6.198m and a revenue smoothing fund of £3.294m as at 31 March 2012. In addition it is necessary to consider additional risks that occur in 2013-14 and subsequent years. Because they are more than 12 months into the future no attempt has been made to assess the impact of these risks at this time.

Major Risks occurring beyond 2012-13:

- formula funding varies from budget assumptions
- possible loss of funding from the introduction of council tax budget localisation in 2013-14
- implementation of stage 2 of Police Remuneration Terms and Conditions Review in 2013-14

Sensitivity of Budget Assumptions

Police Authority Risk Register Ref	Type of Risk	Description	Financial Risk Mitigation	Assessed Financial Impact 2012-13 £000
R03 - Internal Legal Challenges	Unforeseen Liabilities	Increased incidence of redundancy, challenging the Force's HR policies		600
R03 - Internal Legal Challenges	Budgetary Uncertainty	Changes to officer working practices following implementation of Winsor review		800
R04 - Savings not delivered or identified	Budgetary Uncertainty	Staff and other service costs are not reduced in line with revised budgets as a result of inadequate operational planning, financial information and communications	Clear savings plan in place	250
R05 Overspend of Authority's own budget	Budgetary Uncertainty	Changes in police governance	Planning and monitoring undertaken by Treasurer	15
R07 Financial return	Budgetary Uncertainty	Poor investment performance	Ongoing monitoring by Treasurer	27
R07 Financial return	Budgetary Uncertainty	Inefficient cash management		4
R07 Financial return	Budgetary Uncertainty	Increased costs of new borrowing if not met from internal sources		10
R08 Budgeting assumptions	Budgetary Uncertainty	Natural turnover of staff in the Force is not as predicted	Turnover allowance included in budgeted commitments	63
R08 Budgeting assumptions	Budgetary Uncertainty	Number and cost of major incidents may increase (partly through changing resource levels in other services)	Major Operations reserves of £1.9m	300
R11 Capital assets	Budgetary Uncertainty	Inadequate stock condition data on estates	Estates Strategy	68
R12 Investment of surplus funds		Aftermath of banking crisis creating further instability to sovereign debt.	Prudent treasury management strategy	2
Total Assessed Risk				2,139

All risks on the Resources Committee risk register have been assessed. Some risks do not impact directly may have a performance impact these have not been quantified. In addition some funding risks do not occur until 2013-14 or subsequent years. All risks have had a probability of occurrence applied to calculate the assessed financial risk.

Partnership Funding 2012-13

The funding the Force has set aside for partnership contributions is set out in the table below.

Table 4

Partnership	COIS	DEVON	TORBAY	PLYMOUTH	TOTALS
Safeguarding Children	21,340	15,000	11,454	15,000	62,794
Safeguarding Adults	7,000	5,000	5,000	5,000	22,000
Domestic Abuse	25,000	40,000	18,000	25,000	108,000
Drugs and Alcohol Referral (DAAT)	40,000	55,199	27,599	40,000	162,798
Youth Offending Service (YOS)	85,000	142,526	19,888	67,500	314,914
Multi-agency Risk Assessment (MARAC)		25,140			25,140
Acorn Fund (Op Talants)	15,000	12,000	2,000	15,000	44,000
Street Pastors				500	500
Isles of Scilly Medical Launch	1,500				1,500
TOTAL PER GEOGRAPHIC AREA	194,840	294,855	83,941	168,000	741,646
Sexual Assault Referral Centres					200,000
Partnership Contingency					34,000
TOTAL					975,646

Partnership contributions funded by external income are not included in the table above.

Council Tax Information and Precept 2012-13

Tax base, collection variations and precepts					
	Tax Base declared by Councils	Total Precept payable by Councils £	Surplus (Deficit) on collection £	Amount due from Councils £	% share payable by Councils
East Devon	57,602.00	£9,200,767.46	£114,801.87	£9,315,569.33	9.3%
Exeter	38,241.00	£6,108,234.93	(£21,845.00)	£6,086,389.93	6.1%
Mid Devon	28,405.50	£4,537,210.52	£63,167.00	£4,600,377.52	4.6%
North Devon	35,010.33	£5,592,200.01	(£11,202.42)	£5,580,997.59	5.6%
Plymouth	77,271.00	£12,342,496.83	£7,546.00	£12,350,042.83	12.4%
South Hams	38,221.67	£6,105,147.35	£36,000.00	£6,141,147.35	6.2%
Teignbridge	49,446.00	£7,898,009.58	(£10,169.00)	£7,887,840.58	7.9%
Torbay	49,021.42	£7,830,191.42	£232,000.00	£8,062,191.42	8.1%
Torridge	24,243.66	£3,872,439.81	£29,799.00	£3,902,238.81	3.9%
West Devon	21,019.39	£3,357,427.16	£73,730.40	£3,431,157.56	3.4%
Cornwall	195,485.30	£31,224,866.97	£960,000.00	£32,184,866.97	32.3%
Isles of Scilly	1,213.60	£193,848.33	£33,000.00	£226,848.33	0.2%
	615,180.87	£98,262,840.37	£1,506,827.85	£99,769,668.22	100.0%

Police element of Council Tax due for each Property Valuation Band						
Valuation band	Government multiplier		Council Tax by band		Increase per week	%
	Ratio		2012-13	2011-12		
A	6 / 9	0.667	£106.49	£104.40	+ 4.0 p	2.00%
B	7 / 9	0.778	£124.23	£121.80	+ 4.7 p	
C	8 / 9	0.889	£141.98	£139.20	+ 5.3 p	
D	1	1.000	£159.73	£156.60	+ 6.0 p	
E	11 / 9	1.222	£195.23	£191.40	+ 7.4 p	
F	13 / 9	1.444	£230.72	£226.20	+ 8.7 p	
G	15 / 9	1.667	£266.22	£261.00	+ 10.0 p	2.00%
H	18 / 9	2.000	£319.46	£313.20	+ 12.0 p	

Calculation of relevant basic amount of Council Tax			
	£		Band D Council Tax
Council Tax Requirement	98,262,840.37	=	£159.73
Tax Base	615,180.87		

Overview of the Four Year Capital Programme 2012-13 to 2015-16

This overview and the detailed capital programme on pages 17 and 18 update sections 12 and 13 of the Police Authority's Capital Strategy.

The proposed capital programme reflects the Police Authority's investment priorities within the capital finance available. The overriding factors are:

- the availability of revenue funding to meet the ongoing costs of borrowing;
- the availability of capital receipts from the disposal of surplus property to fund the Exeter Criminal Justice Hub and the estates rationalisation programme;
- and the availability of capital grant and revenue reserves to fund the vehicle replacement programme and investment in ICT project and replacement of ICT infrastructure.

There is the possibility of a credit from the Home Office on the transfer of the helicopter to the National Police Air Service. As the nature and value of this credit has not yet been confirmed it is not included in the programme as a source of funding. There is a forecast under-spend on the 2011-12 programme and the proposed programme for 2012-13 anticipates that approval will be given to carry forward £1.9m of the under-spend at the end of 2011-12.

Proposed Programme

Property Schemes

During 2011-12 the Estates Strategy has undergone some fundamental changes to meet the challenge of the Comprehensive Spending Review and to align it with the new operational policing model. The 2012-13 capital programme reflects the new strategy and the core objective to reduce in the size of the estate.

The aim of the Estate Strategy and the related property capital programme are to provide a flexible capability to meet new operational and support requirements ranging from operational hubs to public service access points. They are aligned to the core operational requirements necessary to achieve the force's aims. The objective of the proposed property programme is a positive impact on service delivery, customer satisfaction, employee retention, business processes and the promotion of our core values.

All new projects starting from 2012-13 onwards will be funded from capital receipts arising from the sale of property. Overall the strategy will reduce the revenue budget costs by reducing the overall floor area of the estate.

The largest scheme in the property programme is the scheme to build a criminal justice centre and strategic policing hub on the Middlemoor site. This major project provides a 40 cell criminal justice centre to replace the current facilities. The short comings of the existing facilities in Exeter make this the Force's highest priority in terms of updating existing facilities. This scheme allows the replacement of this major facility to be funded entirely from capital receipts.

Information and Communication Technology

The capital programme contains provision for the ongoing replacement and upgrading of the existing infrastructure such as Airwave, desktop replacement, server replacement and the network. The Force programme includes projects that require significant investment in ICT, including the replacement of the Command and Control System and Crime Intelligence applications.

Vehicles and Workshops

Vehicle numbers are planned to fall broadly in line with the staffing reductions made in the revenue budget. We have also extended the life of police vehicles in recent years to reduce capital expenditure. Nevertheless it is important to ensure that the on-going costs of maintaining a more elderly fleet does not outweigh the one off savings.

The forecast spend of approximately £3.0m in 2012-13 is higher than in subsequent years. This is partly due to the policy of delaying replacement of vehicles (a larger number of vehicles are now due for replacement) and partly to the timing of the new national framework for police vehicles.

Revenue Implications of the Proposed Programme

The four year revenue budget includes increases for the additional capital financing costs generated by new capital projects. These costs can be broken down as follows:

Revenue Implications of the Proposed Capital Programme

	2012-13 £000	2013-14 £000	2014-15 £000	2015-16 £000
<u>Existing Commitments</u>				
Minimum Revenue Provision	273	85	15	0
Additional Borrowing costs	0	0	0	0
Interest receipts	19	19	25	38
	<hr/> 292	<hr/> 104	<hr/> 40	<hr/> 38
<u>New Projects</u>				
Minimum Revenue Provision	0	0	0	0
Additional Borrowing costs	0	0	0	0
Interest receipts	21	21	0	0
	<hr/> 21	<hr/> 21	<hr/> 0	<hr/> 0
Total revenue implications of capital programme	313	125	40	38
Other factors e.g. change in interest rates & cashflow effects	(336)	(5)	(449)	(444)
Total Movement in Capital Financing costs	<hr/> (23)	<hr/> 120	<hr/> (409)	<hr/> (406)

Summary Capital Programme

<u>Capital Expenditure</u>	2012-13 £000	2013-14 £000	2014-15 £000	2015-16 £000
Long Term Property Assets				
Property Schemes	5,504	4,205	9,595	9,897
Short Life Assets				
ICT Infrastructure Replacement	1,827	1,528	1,182	2,450
ICT Programme	991	420	0	0
Vehicle and Workshops	3,077	2,360	2,308	2,050
Total Short Life Assets	<u>5,895</u>	<u>4,308</u>	<u>3,490</u>	<u>4,500</u>
Total New Programme	<u>11,399</u>	<u>8,513</u>	<u>13,085</u>	<u>14,397</u>
2011-12 programme brought forward	1,918	0	0	0
Total Capital Programme	<u><u>13,317</u></u>	<u><u>8,513</u></u>	<u><u>13,085</u></u>	<u><u>14,397</u></u>
 <u>Capital Financing</u>	 2012-13 £000	 2013-14 £000	 2014-15 £000	 2015-16 £000
Prudential Borrowing	3,482	0	0	0
Prudential Borrowing for 2011-12 capital programme	<u>1,798</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Borrowing	<u>5,280</u>	<u>0</u>	<u>0</u>	<u>0</u>
Home Office Capital Grant	3,166	3,837	2,800	2,550
Reserves	2,226	253	287	1,950
Capital Receipts	<u>2,645</u>	<u>4,423</u>	<u>9,998</u>	<u>9,897</u>
Total grant, reserves, capital receipts and contributions	<u>8,037</u>	<u>8,513</u>	<u>13,085</u>	<u>14,397</u>
Total Financing	<u><u>13,317</u></u>	<u><u>8,513</u></u>	<u><u>13,085</u></u>	<u><u>14,397</u></u>

Detailed Capital Programme

	Prior Years	2012-13	2013-14	2014-15	2015-16	Total Scheme Cost
	£000	£000	£000	£000	£000	£000
<u>Property Schemes</u>						
<u>Approved Schemes - commitments</u>						
Plymouth, Devonport Replacement Police Station	1,766	1,821	0	0	0	3,587
Tiverton Patrol Base		300				300
	1,766	2,121	0	0	0	
<u>Outline Approval</u>						
Exeter Criminal Justice Centre & Strategic Policing Hub	637	208	647	9,000	6,008	16,500
Air Support Relocation	1,047	1,453	0	0	0	2,500
	1,684	1,661	647	9,000	6,008	
<u>New Schemes</u>						
Torbay Rationalisation		800				
<u>Estates Rationalisation Programme</u>						
Lynton Neighbourhood Base	}					
Dartmouth Neighbourhood Base						
Perranporth						
Chudleigh						
Plymstock Neighbourhood Base						
Redruth Police Station						
Axminster Neighbourhood						
Liskeard Police Station						
Truro Police Station						
Tregony Neighbourhood Base						
South Brent Neighbourhood Base						
Braunton Neighbourhood Base						
HQ Site (Re-provision Rosemoor Court)						
St Blazey Police Station		922	3,558	595	3,889	
Wadebridge Police Station						
Looe Neighbourhood Base						
Torpoint Neighbourhood Base						
Exmouth Neighbourhood Base						
Plympton Police Station						
Torrington Police Station						
Budleigh Neighbourhood Base						
Okehampton Hub						
Ilfracombe						
Saltash Neighbourhood Base						
Exeter Heavitree Road Police Station						
Callington Neighbourhood Base						
St Ives Police Station						
Helston Neighbourhood Base						
		1,722	3,558	595	3,889	
Total Property Schemes		5,504	4,205	9,595	9,897	

Detailed Capital Programme

	2012-13 £000	2013-14 £000	2014-15 £000	2015-16 £000
<u>Financing of Property Schemes</u>				
Long Term Borrowing	1,821	0	0	0
Short Term Borrowing - Exeter Criminal Justice Centre	1,661	0	0	0
Receipts	2,022	4,205	9,595	9,897
Total Financing	5,504	4,205	9,595	9,897
<u>ICT</u>				
Desktop replacement	200	200	200	200
Airwave	1,331	671	552	565
Server replacement	176	144	120	0
Other	120	513	310	0
Major Software upgrade and Infrastructure Replacement	0	0	0	1,685
Total ICT Infrastructure	1,827	1,528	1,182	2,450
<u>Programme</u>				
Command and Control	320	0	0	0
Crime and Intelligence	103	420	0	0
Southwest E-Commerce Initiative	120	0	0	0
Interview Room Digital Recording	448	0	0	0
Total Programme	991	420	0	0
Total ICT Infrastructure & Programme	2,818	1,948	1,182	2,450
<u>Financing of ICT</u>				
General Home Office Grant	592	1,695	895	500
Programme and Projects Reserve	120	0	0	477
Capital Financing Reserve	2,106	253	287	1,473
Total Financing	2,818	1,948	1,182	2,450
<u>Vehicle & Workshops</u>				
Purchase of Vehicles	3,027	2,310	2,258	2,000
Workshop Equipment	50	50	50	50
Total Vehicles and Workshops	3,077	2,360	2,308	2,050
<u>Financing of Vehicles</u>				
Capital Receipts	603	218	403	0
Capital Grant	2,474	2,142	1,905	2,050
Reserves				
Total Financing	3,077	2,360	2,308	2,050
Total Programme	11,399	8,513	13,085	14,397
2011-12 programme brought forward	1,918			
	13,317			

Prudential Indicators

The Police Authority is required to monitor its overall level of debt in line with the national code of practice drawn up by the Chartered Institute of Public Finance and Accountancy. The code requires the Authority to consider a range of indicators in order to form a judgement about the affordable, prudent and sustainable level of debt for the Authority. The capital expenditure, debt and the treasury management indicators are set out in the Treasury Management Strategy. The indicators below show the impact of the capital expenditure and the level of debt on the revenue budget and hence provide information on the affordability of the capital expenditure plans.

(i) Estimate of the ratio of net capital financing costs to revenue budget

Capital financing costs comprise minimum repayment of "loan principal" and interest paid on loans, offset by interest received.

	2012-13	2013-14	2014-15	2015-16
	£000	£000	£000	£000
Minimum Revenue Provision	1,347	1,432	1,447	1,447
Interest payable on Long Term Borrowing	1,329	1,329	1,329	1,271
Interest Received (net)	(447)	(460)	(868)	(1,647)
Capital Financing Costs	2,229	2,301	1,908	1,071
Net Budget Requirement	280,565	285,667	283,693	282,302
Ratio of financing costs to net revenue stream	0.79%	0.81%	0.67%	0.38%

(ii) Incremental Impact on Council Tax

This indicator shows the incremental impact on the Band D council tax payer of the additional capital expenditure in 2011-12 included in the capital programme.

	2012-13	2013-14	2014-15	2015-16
Incremental increase in Council Tax arising from Capital Expenditure Plans	£0.06	£0.13	£0.10	£0.12

2011-12-...

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
Opening Balance	External Grants & receipts	Budgeted Contributions	Budgeted Applications	Other Internal Financing	Total before Financing	Financing Cap Prog	Budget balance	In-Year Policy Decisions	Forecast budget variations	Closing Balance	
£000	£000	£000	£000	£000	£000 (1 : 5)	£000	£000 (6 : 7)	£000	£000	£000 (8 : 10)	
					6,198						6,198
General Balances											
6,198										6,198	

Earmarked revenue reserves:

Investment in Assets and Service

[illegible]

Specific Capital Reserves / Grants:

Capital Grant	4,780	2,044	6,834	(4,936)	1,898	1,898
Capital Receipts	1,399	850	2,249	(440)	1,809	1,809
Sub-total - specific reserves	6,189	2,894	9,083	(5,376)	3,707	3,707
Total - Balance Sheet "Reserves"	28,307	2,894	26,203	(5,376)	20,827	23,517
						4,395
						(1,705)

[illegible]

Borrowing (including Minimum Revenue Provision)	(5,724)
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Capital Funding

2012-13

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Opening Balance	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
General Balances	6,198					6,198		6,198			6,198

Earmarked revenue reserves:

Investment in Assets and Service

Transformation

Helicopter Replacement	500		250			750		750			750
Programmes & Projects Reserve	3,971		1,200	(1,998)		3,173	(120)	3,053			3,053
Estates Development Reserve	507		160	(272)		395		395			395
Capital Financing Reserve	4,211					4,211	(2,106)	2,105			2,105
Reserves for Exceptional Costs											
Workforce Modernisation Reserve	4,774		1,847	(575)		6,046		6,046			6,046
Reserves for Unpredictable Costs											
Police Officer Ill Health	500		660	(660)		500		500			500
Police Authority Transition Fund	163		70	(233)		0		0			0
Major Operations Reserve	1,890					1,890		1,890			1,890
Revenue Smoothing and Budget Mgt											
Revenue Smoothing Fund	3,294			(450)	940	3,784		3,784			3,784
Sub-total - general reserves	19,810	0	4,187	(4,188)	940	20,749	(2,226)	18,523	0	0	18,523

Specific Capital Reserves / Grants:

Capital Grant	1,898	2,800			4,698	(3,166)		1,532			1,532
Capital Receipts	1,809	4,210			6,019	(2,645)		3,374			3,374
Sub-total - specific reserves	3,707	7,010	0	0	10,717	(5,811)		4,906	0	0	4,906

Total - Balance sheet "Reserves"

	23,517	7,010	4,187	(4,188)	940	31,466	(8,037)	23,429	0	0	23,429
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Provisions

Insurance	1,186		385	(385)		1,186		1,186			1,186
Redundancy	1,395					1,395		1,395	(695)		700
Equal Pay	0					0		0			0
Sub-total - Balance Sheet "Provisions"	2,581	0	385	(385)	0	2,581	0	2,581	(695)	0	1,886

Total - Balances and Reserves 2012-13

	32,296	7,010	4,572	(4,573)	940	40,245	(8,037)	32,208	(695)	0	31,513
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Borrowing (including Minimum Revenue Provision) (5,280)

Capital Funding (13,317)

2013-14

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Opening	External	Budgeted	Budgeted	Other	Total	Financing	Budget	In-Year	Forecast	Closing
	Balance	Grants & receipts	Contributions	Applications	Internal	before	Cap Prog	balance	Policy	budget	Balance
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
						(1 : 5)		(6 : 7)			(8 : 10)
General Balances	6,198					6,198		6,198			6,198

Earmarked revenue reserves:

Investment in Assets and Service Transformation											
Helicopter Replacement	750		250			1,000		1,000			1,000
Programmes & Projects Reserve	3,053		1,200	(1,371)		2,882		2,882			2,882
Estates Development Reserve	395		160	(218)		337		337			337
Capital Financing Reserve	2,105					2,105	(253)	1,852			1,852
Reserves for Exceptional Costs											
Workforce Modernisation Reserve	6,046		2,207	(725)		7,528		7,528			7,528
Reserves for Unpredictable Costs											
Police Officer Ill Health	500		660	(660)		500		500			500
Police Authority Transition Fund	0					0		0			0
Major Operations Reserve	1,890					1,890		1,890			1,890
Revenue Smoothing and Budget Mgt											
Revenue Smoothing Fund	3,784			(250)	128	3,662		3,662			3,662
Sub-total - general reserves	18,523	0	4,477	(3,224)	128	19,904	(253)	19,651	0	0	19,651
Specific Capital Reserves / Grants:											
Capital Grant	1,532	2,600			4,132	(3,837)		295			295
Capital Receipts	3,374	21,500			24,874	(4,423)		20,451			20,451
Sub-total - specific reserves	4,906	24,100	0	0	0	29,006	(8,260)	20,746	0	0	20,746
Total - Balance sheet "Reserves"	23,429	24,100	4,477	(3,224)	128	48,910	(8,513)	40,397	0	0	40,397
Provisions											
Insurance	1,186		385	(385)		1,186		1,186			1,186
Redundancy	700					700		700			700
Equal Pay	0					0		0			0
Sub-total - Balance Sheet "Provisions"	1,886	0	385	(385)	0	1,886	0	1,886	0	0	1,886
Total - Balances and Reserves 2013-14	31,513	24,100	4,862	(3,609)	128	56,994	(8,513)	48,481	0	0	48,481

Capital Funding (8,513)

2014-15

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Opening Balance	External Grants & receipts	Budgeted Contributions	Budgeted Applications	Other Internal Financing	Total before Financing	Financing Cap Prog	Budget balance	In-Year Policy Decisions	Forecast budget variations	Closing Balance
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
						(1 : 5)		(6 : 7)			(8 : 10)
General Balances	6,198					6,198		6,198			6,198

Earmarked revenue reserves:

Investment in Assets and Service Transformation

Helicopter Replacement	1,000		250			1,250		1,250			1,250
Programmes & Projects Reserve	2,892		1,200	(1,240)		2,852		2,842			2,842
Estates Development Reserve	337		160	(117)		380		380			380
Capital Financing Reserve	1,852					1,852	(287)	1,565			1,565
Reserves for Exceptional Costs											
Workforce Modernisation Reserve	7,528			(1,310)		6,218		6,218			6,218
Reserves for Unpredictable Costs											
Police Officer Ill Health	500		660	(660)		500		500			500
Police Authority Transition Fund	0					0		0			0
Major Operations Reserve	1,890					1,890		1,890			1,890
Revenue Smoothing and Budget Mgt											
Revenue Smoothing Fund	3,662			(74)	(467)	3,121		3,121			3,121
Sub-total - general reserves	19,651	0	2,270	(3,401)	(467)	18,053	(287)	17,766	0	0	17,766

Specific Capital Reserves / Grants:

Capital Grant	295	2,600				2,895	(2,800)	95			95
Capital Receipts	20,451	3,725			(3,345)	20,831	(9,998)	10,833			10,833
Sub-total - specific reserves	20,746	6,325	0	0	(3,345)	23,726	(12,798)	10,928	0	0	10,928
Total - Balance sheet "Reserves"	40,397	6,325	2,270	(3,401)	(3,812)	41,779	(13,085)	28,694	0	0	28,694

Provisions

Insurance	1,186		385	(385)		1,186		1,186			1,186
Redundancy	700					700		700			700
Equal Pay	0					0		0			0
Sub-total - Balance sheet "Provisions"	1,886	0	385	(385)	0	1,886	0	1,886	0	0	1,886
Total - Balances and Reserves 2014-15	48,481	6,325	2,655	(3,786)	(3,812)	49,863	(13,085)	36,778	0	0	36,778

Capital Funding

(13,085)

2015-16

(1) Opening Balance	(2) External Grants & receipts	(3) Budgeted Contributions	(4) Budgeted Applications	(5) Other Internal Financing	(6) Total before Financing	(7) Financing Cap Prog	(8) Budget balance	(9) In-Year Policy Decisions	(10) Forecast budget variations	(11) Closing Balance
£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
					(1 : 5)		(6 : 7)			(8 : 10)
6,198					6,198		6,198			6,198
General Balances										

Earmarked revenue reserves:

Transformation										
Helicopter Replacement	1,250	250			1,500		1,500			1,500
Programmes & Projects Reserve	2,842	1,200	(1,200)		2,842	(477)	2,365			2,365
Estates Development Reserve	380	160	(505)		35		35			35
Capital Financing Reserve	1,565				1,565	(1,473)	92			92
Reserves for Exceptional Costs										
Workforce Modernisation Reserve	6,218		(655)		5,563		5,563			5,563
Reserves for Unpredictable Costs										
Police Officer Ill Health	500	660	(660)		500		500			500
Police Authority Transition Fund	0				0		0			0
Major Operations Reserve	1,890				1,890		1,890			1,890
Revenue Smoothing and Budget Mgt										
Revenue Smoothing Fund	3,121		(309)	(800)	2,012		2,012			2,012
Sub-total - general reserves	17,766	0	(3,329)	(800)	15,907	(1,950)	13,957	0	0	13,957

Specific Capital Reserves / Grants:

Capital Grant	95	2,600			2,695	(2,550)	145			145
Capital Receipts	10,833	3,645			14,478	(9,897)	4,581			4,581
Sub-total - specific reserves	10,928	6,245	0	0	17,173	(12,447)	4,726	0	0	4,726
Total - Balance sheet "Reserves"										
	28,694	6,245	2,270	(800)	33,080	(14,397)	18,683	0	0	18,683

Provisions

Insurance	1,186	385	(385)		1,186		1,186			1,186
Redundancy	700				700		700			700
Equal Pay	0				0		0			0
Sub-total - Balance sheet "Provisions"	1,886	0	(385)	0	1,886	0	1,886	0	0	1,886
Total - Balances and Reserves 2015-16										
	36,778	6,245	2,655	(800)	41,164	(14,397)	26,767	0	0	26,767

Capital Funding
(14,397)

Value for Money Statement

Table 5 – Summary Plan

Local Policing Plan Mandatory Headings		2012-13 to 2015-16			
		2012-13 £000	2013-14 £000	2014-15 £000	2015-16 £000
a	Improvements in the deployment of officers and staff	6,200	6,500	6,600	6,600
c	A programme of process improvement work	3,836	800	900	3,500
g	Streamlining support services	2,394	100		
d	Reductions in locally imposed bureaucracy	344	0		
b	Reductions in overtime	0	0	0	0
e	Procurement Local and regional procurement savings The quick adoption of national frameworks for procurement	650	350	0	0
f	Converging IT nationally as part of the Information Systems Improvement Strategy programme	0	0	0	0
h	Economising to make savings in wider overhead expenses *	2,598	578	827	(28)
	Total Savings	16,022	8,328	8,327	10,072

VFM savings as a percentage of gross budget	5.4%	2.8%	2.9%	3.5%
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Reconciliation to Agreed Savings Plan

Savings Plan 2012-13 to 2015-16	16,192	8,258	8,327	10,072
Reductions not resulting in improvements in Value for Money	(100)			
Other budget changes	(70)	70		
Total VFM Savings	16,022	8,328	8,327	10,072

* Paragraph 2 below outlines projects currently under development aimed at generating additional cashable savings in 2013-14, 2014-15, 2015-16.

1. How the Proposed Value for Money Savings will be Achieved

Improvements in the deployment of officers and staff, process improvement work, streamlining support services and reductions in local bureaucracy:

In 2011 the Force undertook a far-reaching review to ensure all its services were effective and efficient. A major restructure in May, where the Force moved to a functional model rather than a geographical one, was a large step-change but a necessary transition to enable us to better match resources to demand. Over the four year period of this plan, cashable savings of £37.8m are forecast from the deployment of officers and staff, process improvement work, streamlining support services and reductions in local bureaucracy.

Reductions in overtime spend:

This includes the provision of resources when they are most needed, thereby helping to reduce the demands of overtime. Although it is accepted that the need for overtime will always exist, effective management of resources will help reduce the welfare and financial impact.

Procurement:

The four Police forces of Devon and Cornwall, Dorset, Gloucestershire and Wiltshire have agreed to set up a shared service for procurement which will go live in April 2012. This will ensure that collaborate opportunities reduce our external spend on goods and services, whilst also reducing the overall cost of acquisition. The regional unit will also work closely with the Home Office Commercial Directorate and wider public sector partners to ensure that national opportunities are fully utilised, where they provide greater value for money.

Converging IT nationally as part of the Information Systems Improvement Strategy programme:

The Force is monitoring the national ISIS programme but in agreement with the National Police Improvement Agency (NPIA) is currently undertaking a large scale refresh of its core IT systems some of which are over 18 years old and are increasingly expensive to support. This will not only enable us to work to converge IT nationally through both the NPIA replacement organisation (currently styled 'NEWCO') and regional/national collaboration activities but in addition this will provide the Force with more modern systems whilst also reducing their cost. Cashable savings include £2.2m per annum by 2014-15 and are included in the savings plan.

Economising to make savings in wider overhead expenses:

All non-staff budget lines have been reviewed to identify opportunities to reduce costs. Savings will be made in transport and travel costs, ICT provision, forensics, buildings and external training.

2. Initiatives to Generate Additional Cash and Non-cashable Savings in 2013-14 Onwards

The savings plan includes those savings where there is a clear plan or strategy that will realise quantifiable savings. In addition to these savings there are a number of initiatives or projects that are under way aimed at generating additional savings in 2013-14 and future years. These include:

- Ensuring that the projects contained within the Force Programme to update our ICT systems deliver both cash and efficiency savings;
- South West e-commerce initiative – this project is aimed at providing the public with an online facility to pay for chargeable police services. The first phase will provide a largely automated firearms licensing service. It is hoped that other services such as insurance report requests can be added. This project should generate process improvement and cash savings in due course;
- Work is underway to address data storage costs – this work should generate further cashable savings in 2013-14;
- Some savings have been built in to the current savings plan from the estates rationalisation strategy but there is the potential for this strategy to generate further savings;
- A new contract for multi functional devices (printing, photocopying and fax) and a new approach to local printing and the use of paper.

3. Monitoring Progress on Value for Money Initiatives

- The cashable savings included in the medium financial strategy as set in table 5 will be monitored by the Resources Committee until 22 November 2012.
- The Chief Constable has a specific duty under section 35 of the Police Reform and Social Responsibility Act 2012 to secure value for money. As part of this duty the Chief Constable will ensure that reliable data is generated that shows the relationship between the consumption of resources, the production of outputs and the realisation of outcomes.
- The HMIC produces annual value for money indicators. The Force uses this data source to analyse its costs and performance in comparison with other Forces.

Devon and Cornwall Police Authority

17 February 2012

Open for the purposes of FOI

Report of the Treasurer

Treasury Management Strategy for 2012-13

RECOMMENDATIONS:

That the Treasury Management / Investment Strategy be approved and specifically:

- (i) the Annual Investment Strategy be approved;
- (ii) the Borrowing Strategy be approved;
- (iii) that Investec are retained to invest surplus funds on behalf of the Police Authority, subject to satisfactory performance;
- (iv) that the Police Authority continues to operate a Devon and Cornwall Police Investment Fund managed by the Treasurer;
- (v) that the Treasurer should retain the flexibility to invest funds directly and to vary amounts invested with Investec and in the Devon and Cornwall Police Investment Fund within the limits set out in the strategy;
- (vi) that the counterparty lists attached at Annex 3 and 4 be approved for all new lending;
- (vii) that the capital expenditure prudential indicators (paragraph 3) external debt indicators (paragraph 6) and the Treasury Management indicators (paragraph 8) be approved;
- (viii) that the Minimum Revenue Provision Statement attached at Annex 5 be approved;
- (ix) the use of Barclays as the Authority's bankers be noted.

1.0 Introduction

1.1 This document should be read in conjunction with the report on the Medium Term Financial Strategy 2012-13 to 2015-16 elsewhere on this agenda.

1.2 The Police Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The CIPFA code requires the Police Authority to adopt a Treasury Management Policy Statement together with a statement of its 'Treasury Management Practices' (TMPs). The Treasury Management Policy requires an annual strategy to be reported to the Authority outlining the expected treasury activity for the forthcoming year. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service.

1.3 This Treasury Management Strategy document sets out:

- The current treasury position, debt and investments
- Prospects for interest rates
- The borrowing strategy
- MRP strategy

- Prudential indicators on fixed / variable borrowing and maturing debt
- Limits to debt; and
- The investment strategy

1.4 It is a statutory duty for the Authority to determine and keep under review how much it can afford to borrow. The Authority must have regard to the Prudential Code when setting its borrowing limits and demonstrate that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax is 'acceptable'. Three sets of indicators are required:

- Capital expenditure indicators – these are set out in section 3 below, affordability indicators are contained within the Medium Term Financial Strategy booklet.
- External Debt Limits - these are set out in section 6 below
- Treasury Management Indicators - these are set out in section 9 below

1.5 As part of the requirement to set a balanced budget, the Police Authority has a duty to ensure that the revenue costs that flow from capital financing decisions are accurately reflected in the medium term financial strategy. The costs of financing the Police Authority's capital programme have been calculated according to the assumptions set out in this strategy.

1.6 Some minor changes to the Police Authority's Treasury Management Practices may be required during the year and it is proposed that these are agreed by the Treasurer and Chair of Resources.

2.0 Objectives for Treasury Management Activity

2.1 The Police Authority's objectives for Treasury management both investing and borrowing are as follows:

- effective management and control of risk is the prime objective
- the Authority attaches a high priority to revenue cost stability. This aids stable financial planning and avoids a stop-start approach to service delivery. This means it adopts a relatively low-risk attitude to treasury management, and accepts that this may come at a cost
- the main risks with regard to treasury management activities are security, liquidity and yield risk. The Authority's treasury management policies will prioritise the risks in that order of importance, that is highest priority will be given to security, followed by liquidity and then yield
- the Authority will pursue best value in treasury management within the context of effective risk management

3.0 The Capital Expenditure Prudential Indicators 2012-13 to 2015-16

3.1 Long term borrowing may only be incurred for the purpose of funding capital expenditure. The Police Authority's capital expenditure plans are set out in detail in the Medium Term Financial Strategy and are summarised in table 1. All borrowing requirements and limits set out in this strategy are consistent with the capital expenditure plans set out in the Medium Term Financial Strategy.

Table 1

	2012-13 £000	2013-14 £000	2014-15 £000	2015-16 £000
Total Capital Expenditure	13,317	8,513	13,085	14,397
Funded By				
Gross Borrowing	5,280	0	0	0
Other capital resources	8,037	8,513	13,085	14,397
Opening Capital Financing Requirement	40,169	44,102	42,670	37,878
Capital expenditure to be financed from borrowing	5,280	0	0	0
Less application of capital receipts to reduce borrowing	0	0	(3,345)	0
Less minimum revenue provision	(1,347)	(1,432)	(1,447)	(1,447)
Closing Capital Financing Requirement	44,102	42,670	37,878	36,431

- 3.2 The Authority's treasury position at 31 March 2012, with forward projections are summarised below. The table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 2

	2011-12 Act £000	2012-13 Est £000	2013-14 Est £000	2014-15 Est £000	2015-16 Est £000
External Debt					
1 Debt at 1 April	32,778	32,778	32,778	32,778	30,778
2 Debt maturing	0	0	0	(2,000)	0
3 Debt as at 31 March	32,778	32,778	32,778	30,778	30,778
4 Capital Financing Requirement	40,169	44,102	42,670	37,878	36,431
5 Under/(over) borrowing	7,391	11,324	9,892	7,100	5,653
Investments					
6 Investment as at 31 March 2012	28,600	26,700	42,500	33,300	25,400
7 Net Debt	(4,178)	(6,078)	9,722	2,522	(5,378)

- 3.3 Table 2 shows that the level of capital expenditure to be funded by internal balances (i.e. the level of under borrowing) is £7.391m as at 31 March 2012 this rises to £11.324m in 2012-13. The detailed borrowing strategy is set out in paragraph 5.

- 3.4 The level of net debt in 2011-12 is £4.178m more than the level of investments, in 2013-14 and 2014-15, this position is reversed and the level of investments exceeds the receipts. This arises because the receipt from the sale of land at Middlemoor is received in advance of the expenditure on the Criminal Justice Hub and this temporarily increases the level of investments.
- 3.5 The debt management strategy and the borrowing limits described below have been set to ensure that borrowing will only be for capital purposes. This means that the Authority complies with the prudential indicator that net debt (that is total debt net of any investments) should not exceed the total of the capital financing requirement. This is illustrated by the fact that net debt (line 7 of table 2) is below the capital financing requirement (line 4 of table 2) in each of the four financial years.

4.0 Economic Outlook and Prospects for Interest Rates

- 4.1 The Authority has appointed Sector as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. The following table gives the Sector's central view.

Table 3

Annual Average %	Bank Rate	Money Rates		PWL B Borrowing Rates		
		3 month	1 year	5 year	25 year	50 year
March 2012	0.50	0.70	1.50	2.30	4.20	4.30
June 2012	0.50	0.70	1.50	2.30	4.20	4.30
Sept 2012	0.50	0.70	1.50	2.30	4.30	4.40
Dec 2012	0.50	0.70	1.60	2.40	4.30	4.40
March 2013	0.50	0.75	1.70	2.50	4.40	4.50
June 2013	0.50	0.80	1.80	2.60	4.50	4.60
Sept 2013	0.75	0.90	1.90	2.70	4.60	4.70
Dec 2013	1.00	1.20	2.20	2.80	4.70	4.80
March 2014	1.25	1.40	2.40	2.90	4.80	4.90
June 2014	1.50	1.60	2.60	3.10	4.90	5.00

- 4.2 Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.5%, underpins investment returns. Sector's central view is that it is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Monetary Policy Committee inflation target.
- 4.3 Fixed interest borrowing rates (PWL B rates) are based on UK gilt yields. The outlook for borrowing rates is currently much more difficult to predict. The UK total national debt is forecast to continue rising until 2015-16; the consequent increase in gilt issuance is therefore expected to be reflected in an increase in gilt yields over this period. However, gilt yields are currently at historically low levels due to investor concerns over Eurozone sovereign debt and have been subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

4.4 This challenging and uncertain economic outlook has a several key treasury management implications:

- The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2012-13;
- There will remain a cost of capital – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

4.5 Having taken into account the Sector central forecast a slightly more prudent view has been taken in terms of returns from investment. The forecasts below are based on the assumption that base rates do not increase until quarter 1 2014. The Investec forecast returns have been provided by the external fund managers. Table 4 shows the rates that have been used to calculate the interest receipts set out in the Medium Term Financial Strategy.

Table 4

Forecast Rates for Budget Purposes (Interest receipts)	Average 2012-13	Average 2013-14	Average 2014-15	Average 2015-16
Short Term Cash	0.7	0.7	1.1	2.3
Devon and Cornwall Police Investment Fund	1.0	1.0	1.5	2.5
Investec	1.5	1.5	2.0	3.0

5.0 Borrowing Strategy 2012-13 to 2015-16

5.1 The overall aims of the borrowing strategy are:

- borrowing at the lowest possible rates in the most appropriate periods
- minimising borrowing costs and expenses
- the management of debt maturities to avoid large levels of maturities in any one year.

5.2 The relative interest rates shown above indicate that the cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates.

5.3 The capital programme, forecast cash-flow requirements and likely level of capital and reserves have been evaluated. This has indicated that no new external borrowing is necessary to fund the capital programme over the next four years. Over this period, internal borrowing is forecast to increase to a maximum of £11.324m in 2012-13 and then decline to £5.653m by 31 March 2016. This strategy is dependent not only on the progress of capital spending but also on the level of the Police Authority's revenue reserves.

- 5.4 Cash-flow modelling has indicated that this level of internal borrowing can be sustained without incurring any significant costs for temporary external borrowing. The revenue and capital cash-flows and interest rates in financial markets will be monitored closely. Any significant change in cash-flows or markets may require a revision to the strategy
- 5.5 Opportunities to restructure the existing debt have been reviewed. This has shown that the cost of debt repayment in terms of premiums incurred exceeds the savings in interest. Restructuring would not therefore generate any savings at the present time.
- 5.6 The debt strategy is based on internal borrowing (or under borrowing). Borrowing in advance of need will not occur under this strategy. For the purposes of clarity this strategy makes clear that the Authority will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

6.0 Prudential Indicators for External Debt

- 6.1 The Operational Boundary is based on the probable level of external debt during the year; it includes temporary borrowing for cash-flow purposes. Variations in cash flow may lead to occasional, short term breaches of the Operational Boundary that are acceptable. Sustained breaches would be an indication that there may be a danger of exceeding the Authorised Limits. Table 5 below sets out the recommended Operational Boundaries for 2012-13 and the following 3 years.
- 6.2 The Authorised Limit represents the level at which the Authority is able to borrow and enter into other long term liabilities. Additional borrowing beyond this level is prohibited unless the limit is revised by the Authority. Table 5 details the recommended Authorised Limits for 2012-13 to 2015-16.

Table 5

	2012-13	2013-14	2014-15	2015-16
	£000	£000	£000	£000
Long term borrowing for capital purposes	44,102	42,670	37,878	36,431
Maximum cash-flow deficit arising from revenue budget operations	10,000	10,000	10,000	10,000
Operational Boundary	54,102	52,670	47,878	46,431
Additional margin for unforeseen circumstances	3,000	3,000	3,000	3,000
Authorised Limit	57,102	55,670	50,878	49,431

7.0 Investment Strategy 2012-13 to 2015-16

- 7.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

- 7.2 The overall aims of the Police Authority's investment strategy are:
- to limit the risk of the loss of capital
 - ensure funds are always available to meet cash-flow requirements
 - to maximise investment returns consistent with the first two aims.

The overriding objective will be to invest prudently, with priority being given to security and liquidity before yield.

- 7.3 The Police Authority's risk appetite can be characterised as follows:
- the Police Authority looks to invest in banks and building societies of a high credit quality and sets lending limits against each one
 - lending to other Local Authorities and Public Bodies can be undertaken
 - the Police Authority may lend to the Debt Management Office (central government), this lending is seen as having the highest level of security
 - The Police Authority may use Treasury Bills
 - The Police Authority may invest in money market funds with a AAA credit rating
- 7.4 Subject to a balanced budget, the Authority has sufficient cash available to meet short-term and operational requirements in the coming year. Prudent financial management has allowed the Authority to build up general balances, earmarked reserves and provisions. The proposed borrowing strategy represents a call on cash balances available to invest and the forecast level of investments over the four year period is set out in table 2.
- 7.5 The Police Authority has three different mechanisms for investing surplus funds:
- Investments managed by Investec, the Authority's external fund managers
 - Devon and Cornwall Police Investment Fund managed by the Treasurer - this fund is invested solely in fixed interest deposits. The remit of the fund is contained at Annex 1
 - Very short term deposits varying from overnight to 3 months
- 7.6 The permitted counterparties contained on the counterparty list of the Devon and Cornwall Police Investment Fund are also permitted on the counterparty list of the External Fund Manager. This means that the combined exposure to any given counterparty or group is the sum of the maximum limit for internally managed funds and the limit for the external fund manager.
- 7.7 The Authority has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Annex 2. This list will be added to, or deducted from by officers should ratings change in accordance with this policy.
- 7.8 It should be borne in mind that it would be impossible for the Authority to mitigate all of the possible risks inherent in investing cash balances. Further economic or

banking problems could impact on the security or returns achieved from the investment strategy.

- 7.9 In exceptional circumstances, the Treasurer will be empowered to invest in foreign currencies but only with the explicit approval of the Resources Committee.

Allocation of Funds

- 7.10 Allocation of funds as at 31 December 2011 between the different mechanisms is set out in table 6 below.

Table 6

	Investments as at 31 December 2011 £000	Forecast Annual Interest Rate %
Devon and Cornwall Police Investment Fund	12,000	1.70%
Short term cash investment	16,160	0.73%
Funds managed by Investec	14,064	1.50%
Total	42,224	

- 7.11 Cash balances available to invest are higher in the period July to December. This is because the Authority receives the annual pension top up grant in July and it is disbursed over the remainder of the year. The Treasurer will consider appropriate strategies for investment of the additional funds taking into account market conditions at the time. This may involve an increase in the funds placed with the external fund manager.

Investment Strategy Principles

External Fund Manager - Segregated Fund Management Principles

- 7.12 The Authority employs Investec Asset Management to invest surplus funds. The agreement with the fund manager makes clear that the security of the fund is of paramount importance and the Manager's priority will be to minimise risk to capital values. The performance of Investec Asset Management is regularly monitored and reported to the Resources Committee. In addition, compliance with the criteria laid down within the Annual Treasury Management Strategy is reviewed on a monthly basis. Ultimate responsibility for the security of the fund lies with the Police Authority.
- 7.13 Investec will use counterparties rated A or above. The credit ratings agencies used are Fitch and Standard and Poor's. Investec use other information including credit default swap prices and market information to supplement their use of credit ratings.
- 7.14 All investments will be specified investments (as defined in the Local Authority Investment Regulations) with the following exception:

Non-specified investments up to a limit of 30% of their overall portfolio may be used. These must be in UK government bonds with maturity period above one year and/or certificates of deposit with maturity periods between one year and two years and/or supranational bonds. The Treasurer has instructed the manager that any trades in supranational bonds must be discussed with him in advance.

- 7.15 The maximum average duration for the portfolio held by the investment manager will be 5 years. The maximum percentage of the portfolio, which the fund manager can invest with any one institution, is 10%.
- 7.16 The current lending list is attached at Annex 4.

Devon and Cornwall Police Investment Fund and Short Term Cash Deposits

- 7.17 The investment strategy for the Devon and Cornwall Police Investment Fund is set out in Annex 1. The investment fund will hold all internally managed cash investments with durations of more than 3 months.
- 7.18 Certificates of deposit have been added to the list of approved instruments with an upper limit of 20% of the fund to be invested in this type of instrument.
- 7.19 The Authority will utilise a creditworthiness policy that:
- i. fully accounts for the ratings and outlook watches published by all three ratings agencies with a full understanding of what they reflect in the eyes of each agency
 - ii. recognises that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate
 - iii. takes account of information that reflects the opinion of the market, such as "Credit Default Swaps"
 - iv. Uses other information sources, for example, the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties
- 7.20 To comply with the above the Authority will utilise the creditworthiness service supplied by Sector which meets all of the requirements set out above. When using this service the Authority will be aware that the ultimate responsibility for ensuring the creditworthiness of counter parties will lie with the Authority.
- 7.21 For ease of reference the Sector approach uses colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the duration for investments. The Authority will therefore use counterparties within the durational bands set out in table 7.

Table 7

Yellow	5 years *
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	3 months
No Colour	not to be used

* This category is for AAA rated Government debt or its equivalent

- 7.22 The current durational band for the counterparties on the Police Authorities current lend list are shown in Annex 3.
- 7.23 When using durational bands set out above the Authority will also apply credit limits as set out in table 8 below.

Table 8

Counterparty type		Fitch	Moody's	Standard and Poor's	Credit Limit
Banks					
UK Banks*	not below	A	A2	A	£10m
Foreign Banks	not below	A	A2	A	£10m
Building Societies					
UK Building Societies	not below	A	A2	A	£4m
Public Bodies					
Central Government					
Debt Management Office					No limit
Local Government					
County Councils					£4m
Metropolitan Authorities					£4m
London Boroughs					£4m
English Unitaries					£4m
Scottish Authorities					£4m
English Districts & Welsh Authorities					£4m
Police and Fire Authorities					£4m
Money Market Funds					£8m

* Includes foreign banks with a UK banking licence.

- 7.24 The proposed counter party list is set out in Annex 3
- 7.25 The 'Approved List of Counterparties is formally reviewed at least monthly. In the current environment, monitoring takes place on a daily basis. Notification of credit rating downgrades (or other market intelligence) is acted upon immediately, resulting in any further lending being suspended.
- 7.26 All additions to the approved counterparty list will be approved by the Treasurer. These will be reported retrospectively to the Resources Committee.
- 7.27 All investments will be specified investments with the following exception:

Non-specified investments up to a limit of the lesser of £10m or 50% of the overall portfolio may be used. These must be fixed interest deposits with UK banks and UK Building Societies, the Debt Management Deposit Facility, Local Authorities or pooled money market funds for more than 364 days.

Performance

- 7.28 The benchmark for performance for the external fund manager and the Investment fund will be the 7 day LIBID (London Interbank Bid Rate).

8.0 Treasury Management Prudential Indicators

8.1 (i) Interest Rate Exposures

Upper limit on fixed and variable interest rate exposures for 2011-12 to 2013-14 are:-

This indicator sets a limit for the exposure to change in interest rates.

	Upper Limit
Upper limit on fixed rate exposures - debt	100%
Upper limit on variable rate exposures - debt	20%
Upper limit on fixed rate exposures - investments	100%
Upper limit on variable rate exposures - investments	60%

This means 80% - 100% of our borrowing will be at rates fixed until the loan is repayable, while no more than 20% will be at variable rates and so liable to change at short notice.

Up to 100% of investment may be in fixed rate deposits and a maximum of 60% may be in variable deposits. The indicator will be calculated on the basis of monthly average holdings.

8.2 (ii) Maturity Structure of Borrowing

Maturity Structure of Fixed Interest Rate Borrowing		
	Lower Limit %	Upper Limit %
Under 12 Months	0	10
12 Months to 2 Years	0	15
2 years to 5 Years	0	25
5 Years to 10 Years	0	33
10 Years and Above	67	0

This indicator shows a maximum of 33% of the authority's borrowing may be taken out for period of less than 10 years. The remaining debt will be for periods of 10 years or more.

8.3 (iii) Upper limit for principal sums invested for period of over 364 days.

This indicator sets a limit on the level of investments that are held for more than 364 days and for the level of investment to be held for longer periods.

The Treasury Management Strategy imposes the following controls on sums invested for more than 364 days:

Funds Invested by External Fund Manager - no more than 30% of the fund may be invested for a period of more than 364 days

Devon and Cornwall Police Investment Fund - no more than the lesser of £10m or 50% of the fund may be invested for more than 364 days

The total for forecast investments as at 31 March 2012 is £28.6m

Limits on investments to mature beyond:

31 March 2012 £28.6m

31 March 2013 £10.0m

31 March 2014 £5.0m

9.0 Cash Flow

- 9.1 Cash flow within the Four Year Financial Strategy covers the four years to 2015-16. A cash flow model has been used to forecast cash movements. The range of investments held by the Police Authority will be managed to ensure that sufficient funds are available to meet daily cash flow needs.

10.0 Monitoring & Benchmarking

- 10.1 Income and expenditure will be monitored monthly to ascertain performance against the budget. Performance and changes in borrowing, management and lending are all reported regularly to members of the Resources Committee.

- 10.2 During 2012-13 the Authority will participate in the Sector benchmarking club. The aim of this benchmarking will be to determine, whether, given the risk appetite of the Authority the rate of return on internally managed funds has been maximised. In addition Sector will be commissioned to review the performance of the external fund manager.

11.0 Change in Governance Structure

- 11.1 As set out in paragraph 1 the Police Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. This code is tailored to the governance structures of a local authority. On 22 November 2012 the current arrangements for oversight of the treasury management function will come to end with the introduction of the Elected Policing Body. As part of the transition work it will be necessary to consider what oversight arrangements will be needed under the new governance arrangements and to design new controls and new reporting regimes. It is hoped that CIPFA will produce guidance that will help guide this work.

12.0 Sensitivity to Interest Rate Movements

- 12.1 Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk) the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

	2012-13 Estimated	2012-13 Estimated
	+ 1%	- 1%
	£000	£000
Interest on Lending	-500	N/A
Borrowing Costs	0	0

This table shows that a 1% increase in interest rates would generate £500,000 in additional income. Borrowing costs will not vary with a change in interest rates as all external borrowing is long term fixed rates.

13.0 Banking Arrangements

- 13.1 The Authority's bankers are Barclays PLC. In November 2010 the Resources Committee approved the extension of the current contract for two years until 31 March 2013.

14.0 Conclusion

- 14.1 The outlook for 2012-13 is one of continuing uncertainty in terms of Treasury Management performance. There is a reasonable consensus among forecasters that interest rates for lending will not increase significantly during 2012-13. In addition there is still uncertainty with regards to Eurozone sovereign debt and hence the security of deposit banks and other financial institutions. For this reason a prudent approach has been taken in terms of forecast investment returns. A significant feature of the strategy is the policy to avoid external borrowing as far as possible. In the current market conditions this will minimise overall capital financing costs.
- 14.2 This Strategy is compliant with all the relevant statutory and regulatory requirements including; the CIPFA Code of Practice on Treasury Management, the CIPFA Prudential Code, the Local Government Act 2003 and the Department for Communities and Local Government investment guidance.

Duncan Walton
Treasurer

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Annex 1

Devon and Cornwall Police Investment Fund

Purpose

To invest cash balances to achieve best value in terms of return whilst giving primacy to the effective management and control of risk. This means that the security of the principal sums invested and the liquidity of funds will be given priority over yield.

Investment Strategy

1. Investments will be limited to fixed interest deposits with UK and Overseas banks and UK building societies; the Debt Management Account Deposit Facility provided by central government and pooled money market funds. Other than in exceptional circumstances the focus will be on investments for 28 days or over.
2. The fund may invest in certificates of deposit, no more than 20% of the fund will be held in this type of investment.
3. All investment to be countries with a sovereign rating of AA or above. Banks with a UK banking licence will be deemed to be rated according to the UK sovereign rating.
4. Funds to be invested only with counterparties on the approved list.
5. The fund will not invest directly in government bonds, foreign currency or international bonds.
6. Investments for more than one year are classified as non-specified investments. A limit of 50% of the overall portfolio will be placed on the amount of the fund that can be invested for a period of more than 1 year.
7. The benchmark for performance will be the 7 day LIBID (London Inter Bank Bid Rate).
8. Investment decisions within the policy will be taken by the Treasurer.

Annex 2

Countries Approved for Investment

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.

AA+

- France
- Hong Kong
- U.S.A.

AA

- Belgium
- UAE

Annex 3

**DEVON AND CORNWALL POLICE
APPROVED LIST OF BORROWERS**

		DCPA Lending Limits		Sector Classification
		Counterparty £ millions	Group Limit	
1.	UK CLEARING BANKS & SUBSIDIARIES (GROUP Limit £)			
	BARCLAYS BANK-			Green
	FIBCA Account	10	10.25	
	Current Account	0.25		
	HSBC BANK	10	10	Green
	LLOYDS BANKING GROUP	10	10	Blue
	ROYAL BANK OF SCOTLAND	10	10	Blue
	SANTANDER	10	10	Green
	SVENSKA HANDELSBANKEN	10	10	Green
2.	BUILDING SOCIETIES			
	NATIONWIDE	4	4	Green
3.	LOCAL AUTHORITIES	4	4	*
4.	DEBT MANAGEMENT ACCOUNT (CENTRAL GOVERNMENT)			
	DMA Deposit Facility (DMADF)	Unlimited		Yellow
	Treasury Bills	Unlimited		Yellow
5.	MONEY MARKET FUNDS			
	IGNIS	8		N/A
	Prime Rate	8		N/A

Key to Sector Classification

Colour	Maximum Length of Deposit
Yellow	Up to 5 years
Purple	Up to 2 years
Blue	Up to 1 year
Orange	Up to 1 year
Red	Up to 6 months
Green	Up to 3 months
* - Not classified by Sector	Up to 1 year

Annex 4

Lending List for External Fund Manager

As at 30 January 2012

Counterparty	Country	Limit
United Kingdom		
UK Government Bonds	UK	No limit on short dated bonds, bonds of over 364 days constrained by 30% limit on non-specified investments
Deposits with the Management Office	Debt UK	No limit
<u>Banks</u>		
Santander	UK	10% of Investec Fund
Barclays	UK	10% of Investec Fund
HSBC	UK	10% of Investec Fund
Lloyds TSB	UK	10% of Investec Fund
Royal Bank of Scotland	UK	10% of Investec Fund
<u>Building Societies</u>		
Nationwide	UK	10% of Investec Fund
Overseas Institutions		
National Bank of Australia	Australia	10% of Investec Fund
ANZ Banking Group	Australia	10% of Investec Fund
Commonwealth Bank of Australia	Australia	10% of Investec Fund
BNP Paribas	France	10% of Investec Fund
Credit Agricole Group	France	10% of Investec Fund
Bank of Montreal	Canada	10% of Investec Fund
Bank of Nova Scotia	Canada	10% of Investec Fund
Royal Bank of Canada	Canada	10% of Investec Fund
Toronto Dominion Bank	Canada	10% of Investec Fund
Svenska Handelsbanken	Sweden	10% of Investec Fund
Nordea	Finland	10% of Investec Fund
Deutsche Bank	Germany	10% of Investec Fund
Rabobank	Netherlands	10% of Investec Fund

Investec the external fund manger may also invest in supranational bonds and in other overseas institutions after specific agreement by the Police Authority Treasurer.

*UK subsidiary of the Spanish bank, Banco Santander Central Hispano

Minimum Revenue Provision Policy Statement 2012-13

1. Department for Communities and Local Government Regulations have been issued which require full Authority to approve **an MRP Statement** in advance of each year. A variety of options are provided to Authority's, so long as there is a prudent provision. The Authority is recommended to approve the following MRP Statement

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former CLG Regulations (Option 1);

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

2. For expenditure incurred after 1 April 2008 for the MRP policy will be:

- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (Option 3);

This option provides for a reduction in the borrowing need over approximately the asset's life.

