Decision by the Police and Crime Commissioner for Hertfordshire

Item: Budget Precept Proposal

Date: 19th January 2023

Decision: The proposal was agreed at the above Strategic Executive Board.

Summary: In conjunction with the results of the public consultation and the 2023/24 Budget Report, the Precept Proposal was recommended for approval to the Police & Crime Panel at their meeting on 25th January 2023: To increase the policing element of council tax precept for 2023/24 to increase by 28p a week (£15.00 per year) for an average Band D: equivalent to £238.00 per annum.

Paper: 2023/24 Proposed Precept Report to the Police & Crime Panel

Meeting	Strategic Executive Board
Date	19 January 2023
Title	2023/24 Proposed Precept report to the Police & Crime Panel
Submitted By	Chief Finance Officer and Director of Resources
Purpose of Report	To provide SEB an opportunity to review the proposed report prior to it being presented to the Police & Crime Panel on 2 February 2023.
Recommendation	That the report is approved for sending to the PCP secretariat on or before 25 January 2023, subject to any agreed updates or amendments.
Financial Implications	Included in the body of the report
Risk Implications	Any delay will not give the panel sufficient time (7 clear days) to scrutinise the Commissioner's proposals in advance of the meeting.
Legal Implications	Failure to meet statutory deadline for the PCC to notify the panel of his/her proposed precept by 1 February as required under Schedule 5 of the Police Reform and Social Responsibility Act 2011.
Equalities Impacts	None identified
Freedom of Information Exemption Section if Applicable	Not exempt under Freedom of Information Act 2000.

Meeting	Police & Crime Panel (PCP)
Date	2 February 2023
Title	Proposed Precept for 2023/24
Submitted By	The Police and Crime Commissioner for Hertfordshire (PCC)
Purpose of Report	To notify the Hertfordshire PCP of the PCC's proposed precept for 2023/24 and to enable it to review the proposal.
Recommendation	That the PCP endorses the PCC's proposed precept increase of 6.7% per annum (£15.00) bringing the total policing element of Council Tax for a typical Band D property and equivalent to £238.00 per year.
Financial Implications	Included in the body of the report
Risk Implications	Failure to apply sound financial management principles over the medium-term may threaten the organisation's financial sustainability.
Legal Implications	The PCC is a precepting authority for the purposes of the Local Government Finance Act 1992 and must set the Council Tax precept in accordance with the requirements of that Act as well as the further requirements of the Police Reform and Social Responsibility Act 2011.
Equalities Impacts	66% of chargeable dwellings are in council tax bands A to D and so will pay an extra £15 or less per annum[1]. There are Local Council Tax Support (LCTS) schemes available in all districts to provide financial assistance to both pensioners and those of working age in paying their council tax. The Government has made total additional funding of £1.53m available across the Hertfordshire billing authorities.
Freedom of Information Exemption Section if Applicable	Not exempt under Freedom of Information Act 2000.

[1] Source: Council Taxbase 2022 in England - GOV.UK (www.gov.uk) Published 9 November 2022

Executive Summary

This report outlines the budget and financial impact of the 2023/24 precept option on which the Police and Crime Commissioner (PCC) has consulted, namely, to increase council tax by 6.7% per annum at Band D (£15.00)[2]. The table below shows the calculation for the council tax requirement for 2023/24, in accordance with section 42A of the Local Government Finance Act 1992.

	£m
Net Budget 2022/23	**244.340**
Standstill costs	9.392
Savings	-7.178
Investment & Growth	6.092
Net Budget 2023/24	**253.646**
Less Home Office Settlement Grants	-141.770
Less Additional Core Grant	-0.456
Less Collection Fund surplus	-0.400
Council Tax Precept Requirement for 2023/24	110.494
Estimated number of band D properties (No.)	464,259
2023/24 Band D Precept requirement £ p.a.	**238.00**
Current Band D Precept (2022/23) £ per annum	223.00
Increase required £ per annum	15.00
Increase required % per annum	6.73%

The resulting council tax bands are shown below:

Band	Proportion of Band D charge	2022/23 Charge £	2023/24 Charge £	Precept increase £			
				per annum	per month	per week	per day
A	6/9ths	148.67	158.67	10.00	0.83	0.19	0.03
B	7/9ths	173.44	185.11	11.67	0.97	0.22	0.03
C	8/9ths	198.22	211.56	13.34	1.11	0.26	0.04
D	**9/9ths**	**223.00**	**238.00**	**15.00**	**1.25**	**0.29**	**0.04**
E	11/9ths	272.56	290.89	18.33	1.53	0.35	0.05
F	13/9ths	322.11	343.78	21.67	1.81	0.42	0.06
G	15/9ths	371.67	396.67	25.00	2.08	0.48	0.07
H	18/9ths	446.00	476.00	30.00	2.50	0.58	0.08

[2] An increase over £15.00 would require a local referendum

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1. Commissioner's summary

Whilst recorded crime is in Hertfordshire is down 9.4 per cent from 2019/20[1], like other parts of the country the force faces rising complexity and challenges in the types and nature of crimes being committed and the investigation of those crimes. The Constabulary's Force Management Statement 2022/23 highlights the unprecedented demand being placed on the service and the impact of responding to calls resulting from service failure from public sector partners around 'public safety and welfare' including Missing People and Mental Ill Health.

This year's Police Grant Settlement from government has increased by £0.456m resulting in an overall settlement grant funding of £142.2m. To meet the budgetary gap, government have outlined their expectation that Police and Crime Commissioners will use the flexibility granted to raise the police element of the council tax precept by £15 (for an average Band D property[2]) for 2023/24 so that we can meet our running costs. In Hertfordshire this amounts to £271.6m in the next financial year. Policing is not immune from the pressures of wage and energy costs, but nor are households immune to the impact of inflation. A balanced approach has therefore been proposed in increasing the precept by 6.73 per cent, significantly below the rate of inflation, to recognise the impact of the Cost-of-Living crisis. Keeping council tax low has been one of the Police and Crime Commissioner's overriding ambitions and he is determined to maintain the reputation of having one of the lowest council tax precepts in the country. Even after the planned increase, Hertfordshire's precept is likely to remain the fifth lowest in England and Wales.

Increasing the precept £15 for an average household equates to an increase of just less than 28p a week or £1.25 a month for Band D properties, 19p a week or 83p a month for a Band A property. Most Hertfordshire residents live in properties banded A to D. This will raise an additional £7 million in income which, alongside core government funding, represents a 4 per cent increase in the total police budget. The revenue generated will help the force to continue delivering the best possible service, and respond to what the public tell me they want: record numbers of police officers in our communities. By the end of April 2023, the Constabulary are on target to have over 2,350 officers in post, 300 more officers than we had in 2019. This budget will consolidate the substantial officer growth and support our efforts to improve police legitimacy by embedding a culture of transparency, accountability and ethical behaviour through investment in supervision, better management training and a focus on high standards.

Our transformative Prevention First programme is already demonstrating impact and reducing demand in the system by identifying the root cause of problems and working with partners to provide long term sustainable solutions. Her Majesty's Inspectorate of Constabulary, Fire and Rescue Service (HMICFRS) forthcoming 'PEEL[3]' assessment of Hertfordshire Constabulary will highlight the good progress that has been made to take an evidence based and data driven approach to preventing risk, harm and victimisation across the county. There is no doubt that there is more to do, and over the coming year new ways will need to be explored to reduce the calls for service coming into the system by working with our partners to identify vulnerability and intervene early.

The Police and Crime Commissioner will be looking even more closely at where the Constabulary can drive further efficiency and improved effectiveness by looking in greater detail at how the budget is spent and resources are deployed.

[1] Year to date figure for recorded crime under Hertfordshire Constabulary, from 1 April 2019 to 31 December 2022 inclusive.

[2] The annual figure depends on the banding of the property. The 2023/24 police council tax precept would rise to £238.00 per annum for an average Band D property.

[3] 'PEEL' stands for Police, Efficiency, Effectiveness and Legitimacy.

2. A view from the Chief Constable

This budget proposal will allow Hertfordshire constabulary to continue its focus on delivering the organisational and PCCs priorities through 2023/24.

The constabulary continues to perform well. Crime levels remain substantially below those seen prior to the pandemic, with crimes such as burglary, robbery and vehicle crime down by up to 45%. Policing outcomes have improved as well, and we continue to compare very favourably on both these measures against forces policing areas similar to Hertfordshire. At the same time our workforce has grown as we remain fully committed to our neighbourhood style of policing. We are determined to build upon these strengths to further benefit the people of the county.

Amidst a backdrop of high inflation and modest grant increases, the constabulary continues to operate in a financially challenging environment; the £15 increase in council tax as set out in this budget proposal is essential if the constabulary is to maintain its current workforce strength and asset base whilst continuing to deliver on the priorities set out by the PCC and in the constabulary's plan on a page and control strategy.

Prevention First remains a central focus for the constabulary; this approach has the potential to transform policing in Hertfordshire and will result in fewer victims of crime and reduce overall demand. This budget will allow us to continue the programme of cultural change at the heart of Prevention First and roll out more training to frontline officers and staff to really embed this approach across the whole constabulary.

This budget will also allow the constabulary to continue to focus on the priorities set out in its control strategy with a clear focus on preventing and reducing harm for the most vulnerable as well as tackling violence against women and girls.

I recognise that there is considerable concern amongst the public about the terrible actions of some serving officers and the constabulary has worked hard over the last few years to remove that small minority of officers and staff in its ranks who have fallen well below the high standards we set. The investment in our professional standards and vetting teams contained in this budget is essential if we are to maintain our high standards and rebuild the damage this has caused to public confidence. It is non-negotiable for me that every member of the constabulary can be trusted to always live up to the high expectations the public rightly have of the police.

In common with many parts of the public sector and as identified in the most recent Force Management Statement, recruitment and retention has been a significant challenge for the constabulary throughout 2022/23 and is likely to continue to be challenging through

2023/24. Although the constabulary is on target to meet its share of the officer growth set out by government under the Uplift programme (and will achieve the highest number of police officers in the constabulary's history as a result), without the increase in council tax set out in this budget it will prove difficult to maintain these numbers whilst simultaneously including critical areas, such as our force control room and criminal justice functions, are appropriately resourced. Whilst decisions regarding annual pay-rises are outside of the control of the constabulary, this budget will allow the constabulary to do all it can to ensure that appropriate reward mechanisms are in place and that projected pay rises for all its officers and staff are properly funded.

The capital programme set out in this budget is key if the constabulary is to continue delivering the highest levels of service to the people and communities of Hertfordshire. This capital programme will ensure that the constabulary has the right physical assets (police stations, operational bases, vehicles etc.) in place to allow all our officers and staff to interact and respond to the public in the right way at the right time. As identified in the Force Management Statement, Information Technology is also a key investment area; this capital programme will not only ensure that core systems are properly maintained but it will also provide capacity to invest in new technologies that will further enhance our capabilities, efficiency and ability to tackle criminals and prevent crime.

Whilst there many significant challenges still ahead for policing I am very optimistic that Hertfordshire constabulary understands these and this budget is a key enabler in keeping us well positioned to meet these successfully. I am delighted that the Police and Crime Commissioner shares my vision and is willing to make the resources available to the constabulary through his proposed £15 council tax increase.

3. Background

This report meets the requirements of Schedule 5 of the Police Reform and Social Responsibility Act 2011 and the Police and Crime Panels (Precepts and Chief Constable Appointments) Regulations 2012, whereby the Police and Crime Commissioner (PCC) must notify the Panel of his proposed precept by 1 February and thereby give the panel the opportunity to review and make a report to the PCC on the proposed precept (whether it vetoes the precept or not) by 8 February.

It provides the Panel with information on the 2023/24 revenue and capital budgets and the Commissioner's recommended council tax precept increase to meet these financial commitments[3]. The PCC is responsible for setting the annual budget and council tax precept for 2023/24 and giving consideration as to whether the budget and service plans are relevant, affordable, and sustainable in the longer-term. In doing so, he must satisfy himself that services and resource allocation have been appropriately prioritised and that financial risks have been adequately addressed and covered by, for example, reserves, contingencies, and risk mitigation plans.

The decision on the level of the precept/council tax, the Revenue Budget and Capital Programme needs to be seen in the context of the funding envelope (the total of the precept and government grant), and the pressures on the policing service, for example the changing nature of crime, increasing demand, more complex investigations, and other unavoidable cost pressures such as inflation (pay and non-pay).

The decision on precept must also be seen, not as a one-off decision in relation to next year, but as part of a strategy in relation to the changing demands on policing over the short to medium-term. The precept and budget proposals within this report are made within the context of a rolling four-year financial planning cycle and integrates the resources required to deliver the Commissioner's police and crime plan. The figures contained within the report are based upon current information and the stated assumptions.

The Panel must therefore review the proposed precept notified to it and provide a report on the proposal to the Commissioner by 8 February 2023.

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[3] Subject to the final notifications on the council tax base and collection fund from the ten billing authorities.

4. The Funding Context

Despite the recent emergence from the pandemic, the economic landscape has significantly worsened since the last settlement. Most notably, inflation has climbed much higher than was predicted this time last year, with CPI reaching 11.1% by October. There has been pressure on the Government from all sides to increase departmental spending to avoid real terms cuts.

However, to address increased levels of debt, departmental cuts were considered a necessity. This led the Chancellor to cut many departmental budgets. Below illustrates the difference between the Spending Review 2021 (SR21) and the Autumn Statement 2022 (AS22) for Home Office Revenue Departmental Expenditure Limits (RDEL).

RDEL (excl. depreciation)	2021-22	2022-23	2023-24	2024-25	Change
SR21	£14.6bn	£16.2bn	£16.5bn	£16.5bn	£1.9bn
AS22	£14.4bn	£14.6bn	£15.4bn	£15.5bn	£1.1bn

The National Police Chiefs Council NPCC released figures from a survey in October, which found that energy inflation is adding £100m a year to deficits. The survey also found that there were additional cost pressures of £127m for service development and other contractual inflation. This led to a request for an additional £300m in core police funding to protect the service from inflationary pressures.

Furthermore, due to the larger than expected inflation figures, there has been pressure across the public sector to offer larger pay rises than would have otherwise been expected. For 2022/23 many forces were expecting a pay award of between 2% and 3%, but in July the government announced that police officers will get a pay award of £1,900 at all pay points, worth around 5% nationally, when all ranks and pay scales are taken into account. After the announcement, the then Home Secretary announced additional funding to help cover the increased pressure on budgets of £70m in 2022-23, £140m in 2023-24 and £140m in 2024-25. This assumed that next year's pay award would drop back down to previous assumptions.

Last year the Home Office distributed approximately £70m of additional grant to cover the costs of the national insurance employer contributions increases because of the social care levy. However, figures appear to show that around £66m is being clawed back by the HO following cancellation of the levy from 6 November 2022, leaving £74m for pay increases (£140m minus £66m).

5. Grant Settlement

The 2023-24 Provisional Settlement was announced on 14 December 2022 in a written statement by the Crime and Policing Minister and full details of the Settlement can be found on the Home Office website here. The deadline for submissions to the provisional settlement is 5pm on 13 January. The main elements of the Grant Settlement are set out below:

a. Core Grant[4]

The provisional settlement sets out a net cash increase of £0.456m and resultant overall settlement grant funding of £142.226m. This total includes:

Pay Award 2022/23 Funding - In July 2022 the government announced acceptance of the Police Renumeration Review Body's recommendation to award a consolidated increase of £1,900 to all police officer ranks and pay points with effect from 1 September 2022. To help fund this additional cost, the Home Office set-out additional funding over this Spending Review period, which included £70m in 2022/23, £140m in 2023/24 and £140m in 2024/25.	£2.1m
Police Uplift Funding – SR 2021 included an additional £100m to support the PUP in the 2023/24 core grant.	£1.5m
Health and Social Care Levy - `Funding has been removed to reflect the government's decision to abolish the Health and Social Care Levy equivalent to a 1.25% increase on employer national insurance contribution.	-£1.0m
Additional Ring Fencing - The Home Office has confirmed an increase to the element of the settlement ring fenced to PUP officer number attainment and this is shown here as a transfer to grants (see below).	-£2.1m
Net increase in core grant funding	**£0.5m**

b. Specific Grant - Police Uplift Programme (PUP) funding

2022/23 was the final year of the PUP, however the Home Office has committed to maintaining officer numbers in future years, and therefore the ring fencing of PUP funding has been both continued and increased into 2023/24, to encourage forces to maintain officer numbers, which for Hertfordshire is an increased headcount of 304 officer (from April 2019)[5]. Hertfordshire's share of this funding in 2023/24 is £4.1m (£2.1m additional for

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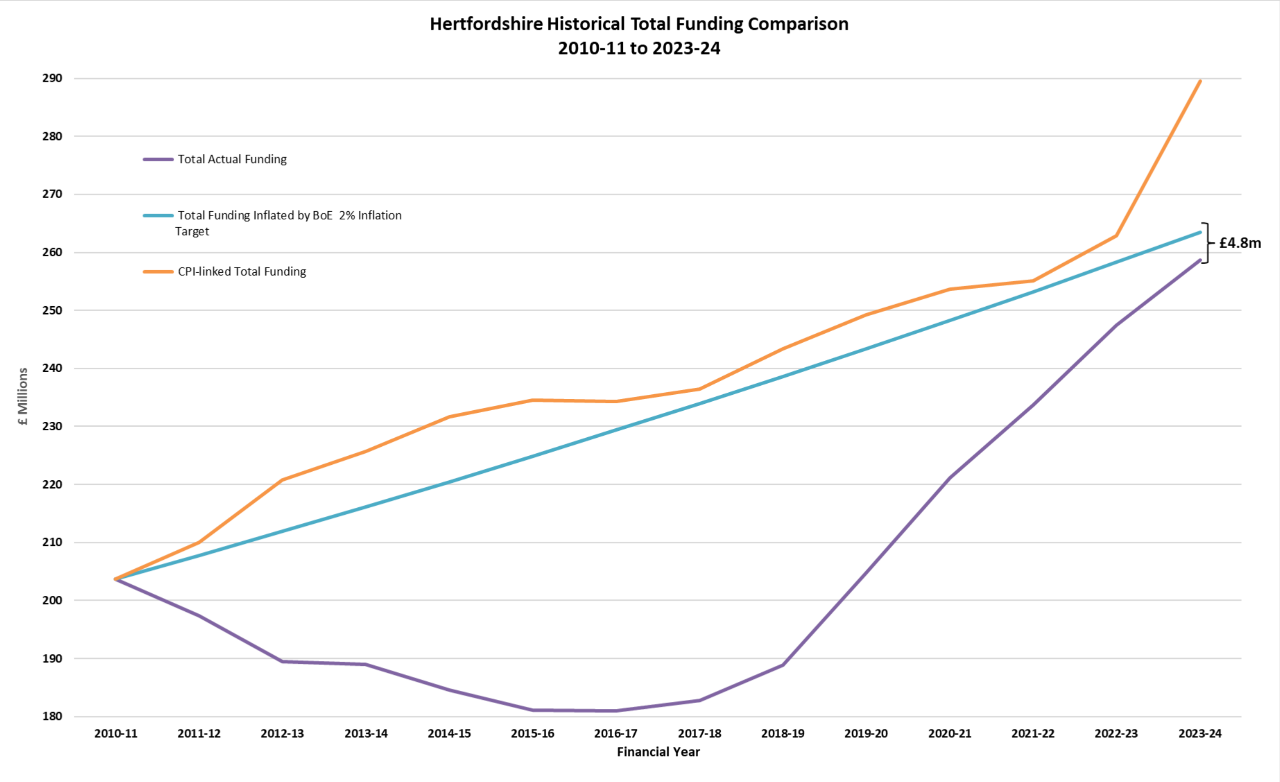
[4] No changes to the Police Funding Formula are anticipated in 2023/24 year.

[5] Baseline headcount 2,077 officers

2023/24 and £2.1m from 2022/23). The Home Office will confirm the mechanism for receiving this ringfenced funding in the New Year.

The graph below shows that despite significant increases in recent years, primarily focused on the Police Uplift Programme (PUP), Hertfordshire's overall funding has not kept pace with the Bank of England (BoE) inflationary target of 2% and remains £4.8m lower in 'real-terms'.



a. Capital Grant

For the second year running the Government has decided to provide no capital funding directly to forces by way of a grant.

b. Ministry of Justice (MoJ) Grants

In addition to the Home Office funding outlined above, the PCC also receives grants from the MoJ, for the commissioning of victims' services. At this point it is assumed that Hertfordshire's 2023/24 allocation will be same as the previous year at £2.109m which comprising the following elements:

Grant element	**Amount £m**
MOJ Core budget	1.383
Independent Domestic Violence Advocates (IDVA)	0.067
Early Intervention Officer Sexual Violence/Domestic Abuse	0.256
Independent Sexual Violence Advocates (ISVA)/IDVA	0.208
Domestic Violence/Sexual Violence services	0.195
Total funding	**2.109**

6. Council Tax income

On the 12 December 2022 guidance was issued by the Home Office amending the council tax referendum principles (previously the Spending Review 2021 set out at £10) to £15 on a typical Band D property. The guidance also stated:

'Precept rises should not be in place of sound financial management and we expect PCCs to exhaust all other options to reprioritise budgets, seek efficiencies and to maximise productivity of their existing resources before looking to local taxpayers for additional funding'.

a. Taxbase

The taxbase is calculated by the billing authorities by converting all properties to Band D equivalents and making assumptions about the levels of discounts to be offered and the amount of tax to be collected. The final council tax base and collection fund balance estimates for Council Tax provided by the 10 billing authorities estimate the police tax base to increase by 1.27% realising a further £1.296m of income.

Hertfordshire Boroughs & Districts' Taxbase				
Billing Authority	**Tax Base 2022/23**	**Tax Base 2023/24**	**Change**	
	No.	**No.**	**No.**	**%**
Broxbourne Borough Council	35,722	36,137	415	1.16%
Dacorum Borough Council	59,328	59,922	594	1.00%
East Herts District Council	62,610	63,893	1,283	2.05%
Hertsmere Borough Council	42,800	43,176	376	0.88%
North Herts District Council	49,965	50,605	640	1.28%
St Albans District Council	63,368	63,714	346	0.55%
Stevenage Borough Council	28,004	28,153	149	0.53%
Three Rivers District Council	39,260	39,545	285	0.73%
Watford Borough Council	33,891	35,247	1,356	4.00%
Welwyn Hatfield District Council	43,498	43,867	369	0.85%
TOTAL	**458,445**	**464,259**	**5,814**	**1.27%**

A summary of the additional income generated from the above taxbase change is as follows:

Taxbase Calculation	Amount
Estimated number of band D properties – 2023/24	464,259
Number of band D properties – 2022/23	458,445
Increase in tax base properties	5,814
Band D council tax rate	£223.00
Increased tax base income	**£1.296m**

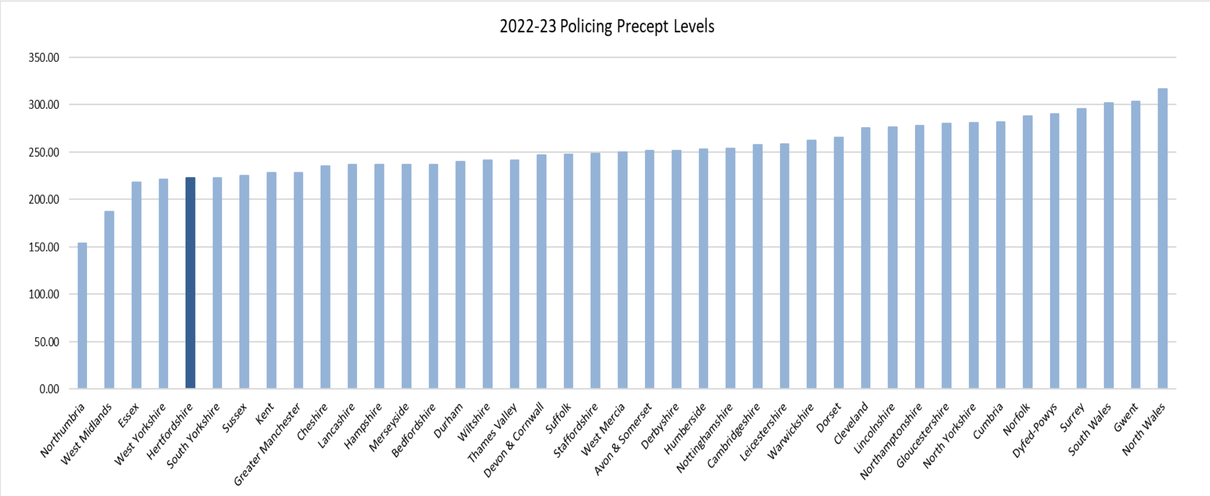
b. Collection fund

The collection fund reflects the year-to-year differences between estimated and actual collection of Council Tax because of changes in collection rate and levels of tax base growth. At the time of writing the figures have not been received from the districts and so a prudent estimate of £0.400m has been assumed, which would be a year-on-year increase of circa. £0.063m.

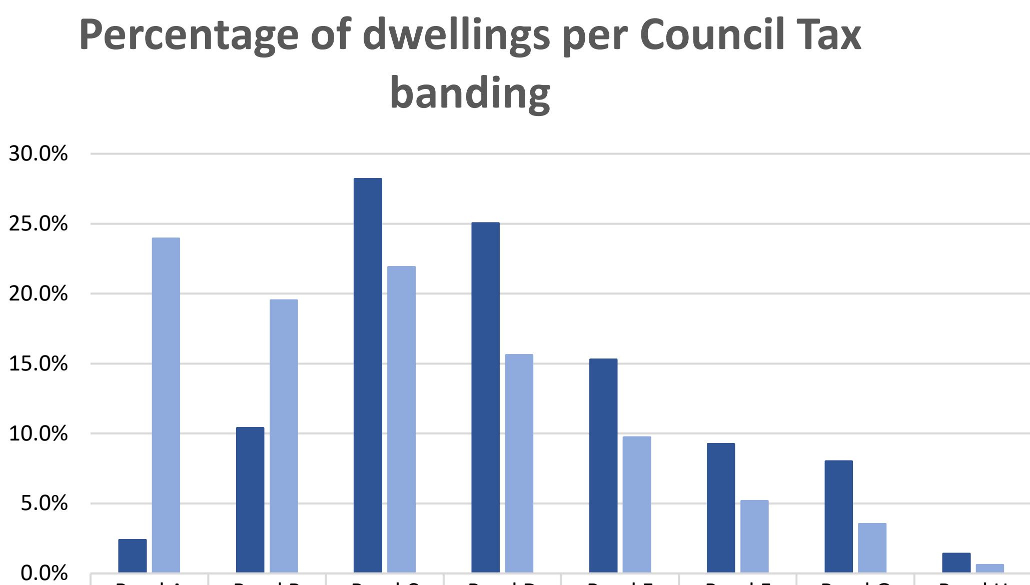
Draft Collection Fund Surplus/(Deficit) relating to the PCC			
Billing Authority	**2022/23 £**	**2023/24 £**	**Change £**
Broxbourne Borough Council	264,189	-	-
Dacorum Borough Council	-107,190	-	-
East Herts District Council	58	-	-
Hertsmere Borough Council	167,699	-	-
North Herts District Council	773	-	-
St Albans District Council	164,457	-	-
Stevenage Borough Council	48,369	-	-
Three Rivers District Council	11,905	-	-
Watford Borough Council	104,845	-	-
Welwyn Hatfield District Council	-317,667	-	-
TOTAL	**337,438**	**400,000**	**62,562**

c. Band D Council Tax

The band D council tax policing precept proposed for 2023/24 is £238.00, an increase of £15.00 or 6.73% on the comparable figure for 2022/23. Hertfordshire's current 2022/23 Band D council tax precept of £223.00 and the graph below shows that this the 5th lowest in the country and is 11.5% below the average of the 41[6] PCCs for England & Wales of £251.96.



The graph below shows the composition of the chargeable dwellings in Hertfordshire in comparison to the average for England.



	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
Hertfordshire	2.4%	10.4%	28.2%	25.0%	15.3%	9.3%	8.0%	1.4%
England	23.9%	19.5%	21.9%	15.6%	9.7%	5.2%	3.5%	0.6%

Hertfordshire England

As shown above, 66.0% of Hertfordshire's properties are in Bands A to D and so will pay £238.00 or less for the policing element of their council tax.

[6] Average of £246.42 for 37 PCCs for England

d. Overall Increase in Council Tax Income

The net effect of tax base, collection fund surplus and the precept increase set-out above results in a £8.342m increase in council tax income for 2023/24.

Council Tax Element	**£m**
Precept increase	6.964
Tax base increase	1.296
Collection fund change	0.063
Total Council Tax increase	**8.343**

7. 2023/24 Standstill Pressures

Standstill budget pressures are those costs increases that are required to deliver the same level of service as in the current financial year. The standstill budget requirement for 2023/24 totals £9.866m and comprises the following:

Standstill Costs	**2023/24 £m**
Officer Pay	4.063
Staff Pay	3.579
Non-Pay	2.572
Capital Financing	1.256
Specific Grants	-2.100
Reserves Pressure	0.496
Total	**9.866**

a. Police Officer pay costs – £4.063m

The 2022/23 budget included funding for a police officer pay award of 2.5% from 1 September 2022. The final award, a set £1,900 for all ranks and spinal points equated to an 8.8% award for police constables and averaged around 6.1%. The overall additional cost of the 2022/23 pay award totalling £4.706m is included within the 2023/24 standstill budget.

Further it has been assumed that a 2.0% award will be payable from 1 September 2023 at a cost of £1.445m in 2023/24. At this stage the police pay award for 2023/24 has yet to be agreed so there is a risk of change to the current figures. The risk of change is seen as particularly high this year due to the on-going “cost of living crises” and the high degree of industrial action currently being seen across both public and private sectors. Unfunded pay awards above these levels will create an additional pressure and prompt a review of the current workforce plans.

Offsetting the above cost pressures are £1.220m of cost reductions from the government’s decision not to implement the 1.25% increase to National Insurance employer contributions and a saving of £0.868m from reducing average police pay rates which have been reviewed in light of continued student level recruitment and turnover reflecting a shorter service profile for police officers.

b. Police Staff pay costs – £3.579m

In line with the police officer pay award the police staff award was a fixed £1,900 for all grades and spinal points and as such an additional cost of £3.383m above the 2.5% budgeted in 2022/23 needs to be included within the 2023/24 budget pressures. In addition, funding for the 2023/24 pay award at 2.0% from 1 September 2023 of £0.886m is included within the standstill budget,

Offsetting the above is the removal of cost pressures of £0.680m of cost reductions again from the government's decision not to implement the 1.25% increase to National Insurance employer contributions.

c. Non-Pay inflation - £2.572m

The UK continues to see significant headline inflation rates over the past twelve months as the economy has ramped up with both labour shortages and supply chain difficulties impacts on costs etc. The October CPI figure was 11.1% - a 40 year high. The OBR forecasts CPI in the UK to peak at around this level and then drop sharply over the course of next year and is dragged below zero in the middle of the decade by falling energy and food prices before returning to its 2% target in 2027.

The 2023/24 budget makes an allowance for 4.0% general inflation across non-pay budgets at a cost of £2.572m, of which £1.276m will be held centrally to target areas or pressure during 2023/24. It should be noted that this isn't necessarily an estimate of the rate of inflation but rather the rate by which budgets will need to increase to accommodate inflationary pressures.

d. Capital financing - £1.119m

There are a range of cost pressures faced by the PCC in order to fund the growing capital programme which includes the redevelopment of the HQ site, significant investment in ICT and the transition of the vehicle fleet to electric vehicles by 2030. It is forecast that a significant increase in external borrowing will be incurred over the next four years and as a result there will be a proportional increase in the level of interest on borrowing paid (amplified by a near threefold increase in interest rates over the last year), the PCC will be required to make higher levels of Minimum Revenue Provision (MRP) resulting from the funding of the capital programme through the Capital Financing Requirement (CFR), and finally in order to minimise the level of borrowing required, cash balances will be lower leading to a reduction in investment interest received.

e. HQ Redevelopment costs - £0.137m

The annual costs associated with the redevelopment of the WGC HQ that cannot be capitalised and so must be charged to revenue are forecast to increase by £0.137m in

2023/24 and £0.938m by 2026/27. These costs relate predominantly to decant costs including rental of alternative premises.

f. Specific Grants - £2.100m

The provisional settlement confirms that an element of overall funding equivalent to 2.8% of overall police funding will be linked to attaining and maintaining police officer numbers at PUP target levels. For Hertfordshire this equates to an increase of circa £2.1m in specific grant linked to the PUP grant.

g. Reserves – £0.496m

Application of the final balance of Covid related funding from the government.

8. Investment

The following areas of investment, primarily aimed at police officer and staff recruitment and retention (£4.410m) have been prioritised by chief officers.

Description	2023/24 £m
Balance of PUP posts – 32 FTE to get to 122	1.120
Police Staff Posts	0.562
Recruitment and retention initiatives	
• South-East Allowances – Final £500 to get to £3,000	1.500
• Targeted Variable Payments to Detectives	1.560
• Police Staff Increment Changes	1.350
Total Investment	**6.092**

The additional £1.120m relates to the extra funding required to achieve the final 32 officer growth from the 90 currently included in the budget.

The £0.562m is required to permanently establish 17 FTE new police staff posts set out below, that were created in 2022/23, and have been deemed necessary by Chief Officers.

Role	Number of posts	£'000
Press & PR Officer	4.00	169
Public Affairs & Comms Manager	1.00	54
Personal Assistant	1.00	28
Training Co-ordinator	1.00	32
Executive Support Staff Officer	1.00	32
Detention Officers	5.00	137
Vetting officers	4.00	110

In addition, in response to the difficulties in recruiting to both police officer and police staff roles the Constabulary has reviewed and invested in terms and conditions to be better able to compete in what is currently a very hard jobs market. This investment included £1.500m to increase the Southeast Allowance to £3k per full time police officer, £1.560m to fund Targeted Variable Payments (TVP) to Detectives and £1.350m in revisions to police staff pay scales.

The budget workshops held during the summer did not identify significant areas for strategic investment and as such Chief Officers are of the view that the current resource allocation between units is broadly correct.

9. Medium-term Financial Strategy (MTFS)

The medium-term financial strategy is based on several key assumptions covering likely funding levels, inflationary increases and expenditure items:

a) That there is no change in the Police Funding formula over the medium term.
b) 2.0% per annum pay award is applied to all officers and police staff. Payable from 1 September each year.
c) Annual increment growth for both police officers and police staff will be matched by the drop in increments through turnover.
d) Non-Pay inflation applied to other areas of expenditure 4.0% in 2024/25 and 3.0% per annum thereafter.
e) The rates of employer's national insurance employer contributions remain the same as those for 2022/23 levels across the MTFS.
f) Employer superannuation contributions remain the same for both the Police Pension Scheme and the LGPS as in 2022/23 across the MTFS.
g) An increase in the Council Tax Base of 1.27% in 2023/24 and 1.4% per annum thereafter.
h) That the Council Tax collection fund will be in surplus by £0.400m in 2023/24 and over the remainder of the MTFS.
i) That the precept will not increase after 2023/24 and will be determined for each year of the MTFS.

The table below summaries the assumptions listed above.

MTFP	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Pay Awards	2.0%	2.0%	2.0%	2.0%
Non-Pay Inflation	4.0%	3.0%	3.0%	2.0%
Core Grant	1.73%	0.40%	0.50%	0.50%
Taxbase	1.27%	1.40%	1.40%	1.40%
Collection Fund Surplus	£400k	£400k	£400k	£400k
Min Precept increase	£15.00	£0.00	£0.00	£0.00

The standstill budget requirements for the period to 2026/27 totals £37.5m and comprises the following:

Standstill Costs	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Officer Pay	4.063	2.767	2.824	2.881	12.535
Staff Pay	3.579	1.794	1.571	1.616	8.547
Non-Pay	2.572	1.560	1.580	1.155	6.867
Capital Financing	1.256	1.960	3.056	4.881	11.153
Specific Grants	-2.100	-		-	2.100
Reserves Pressure	0.496	-	-	-	0.496
Total	**9.866**	**8.081**	**9.031**	**10.520**	**37.498**

The assumed changes in Government Grant levels over the medium-term are set below.

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Core Grant	-131.542	-131.998	-132.563	-133.281	-134.004
Council Tax Legacy Grant	-10.228	-10.228	-10.228	-10.228	-10.228
Total	**-141.770**	**-142.226**	**-142.791**	**-143.509**	**-144.232**
Change on previous year (£m)		-0.456	-0.565	-0.719	-0.722
Change on previous year (%)		0.35%	0.40%	0.50%	0.50%

The medium-term financial strategy reflecting the assumptions outlined above is shown in the table below.

MTFP	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Standstill costs	9.866	8.081	9.031	10.520	37.498
Core Grant	-0.456	-0.565	-0.719	-0.722	-2.462
Taxbase & Collection Fund	-1.359	-1.548	-1.636	-1.726	-6.264
Precept increase	-6.971	0	0	0	-6.971
Investment	6.092	0	0	0	6.092
Budget Gap	**7.179**	**5.968**	**6.676**	**8.072**	**27.900**

The table above shows the medium-term financial strategy based upon high level spending and income assumptions and the 17 November Autumn statement. The plan sets out a budget gap of £7.179m in 2023/24 and £27.9m by 2026/27.

The current MTFS does not include further flexibility for investment and the expectation has been set by Chief Officers that all requests for investment not meeting strategic principles must be funded through the reprioritisation of existing budget.

The main sensitivities that may affect the assumptions and the impact of a 1% variance are shown in the table below.

Variable	1% Variance (£m) (+/-)
Police Pay	0.788
PCSO/Police Staff Pay	0.441
Utilities	0.017
Fuel	0.013
Supplies and Services	0.275
Police Grant	-1.418
Precept	-1.036
Tax Base	-1.022

Based on the above table the main risks to the force are uncertainties in the funding settlement from central government, the PCC Precept decision, any pay award to officers and staff above the 2.0% increase assumed and finally a continuation into 2023/24 of the current high levels of inflation on no pay items.

Risks not included in the table above are those associated with national projects being delayed which may have a financial implication on the PCC and the Chief Constable. For example, the Emergency Services Mobile Communications Programme (ESMCP). Any unplanned financial implications of national projects these will be dealt with through annual budget setting process.

10. Medium-term savings proposals

The table below sets out the proposed approach to closing the budget gap over the medium term.

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Budget Gap	**7.179**	**5.969**	**6.678**	**8.074**	**27.900**
Police Officer Pay 1% vacancy factor	-1.123	0	0	0	-1.123
Police Staff Pay 1% increase to vacancy factor	-0.513	0	0	0	-0.513
Police Officer Vacancies	-1.500	0	0	0	-1.500
PCSO Vacancies	-1.000	0	0	0	-1.000
Police Staff Vacancies	-0.800	0	0	0	-0.800
Efficiency Targets police staff & non pay (equivalent to 4% of non-pay budget)	-1.000	-1.000	-1.000	-1.000	-4.000
Removal of Transitional Account	-0.820	0	0	0	-0.820
Coroners Service	-0.104	-0.104	0	0	-0.208
7F Commercial Procurement collaboration - Business Case savings	-0.250	-0.250	0	0	-0.500
7F Projects Team	-0.068	0	0	0	-0.068
PCC grants	0	-0.750	0	0	-0.750
Net Annual Budget Gap	**0**	**3.865**	**5.676**	**7.072**	
Cumulative Budget Gap	**0**	**3.865**	**9.543**	**16.617**	

For illustrative purposes only the net budget annual gaps set about above are equivalent to the following precept increases:

Estimated Band D requirement £	238.00	246.21	258.10	272.71
Monetary increase required £	0.00	8.21	11.89	14.61
Percentage increase required %	0.00	3.45	4.83	5.66

Details of the proposals are as follows:

a. Vacancy Factors

Vacancy factors represent the financial impact of staff and officer turnover both in terms of vacancies carried, the appointment of new staff at lower spinal point and other reasons for which pay is made at lower rates (maternity, long-term sickness etc).

The introduction of a 1% vacancy factor for police officers in Herts only units will broadly align with BCH collaborated units and generate savings of £1.123m.
Herts units other than Custody, currently have a 4.3% vacancy factor incorporated into their Police Staff budgets. A 1% increase in vacancy factor will save an estimated £0.513m.

b. Vacancies / Force Review

Whilst vacancy factors reflect normal changes in the composition of Police Officer and Police Staff establishment actuals, the Constabulary is also carrying significant levels of Police Officer, PCSO and Police Staff vacancies due to several factors including the need to fill the recent significant increase in officer levels through PUP and precept as well as a strong jobs market. To reflect the impact of these relatively high levels of vacancies pay budgets have been reduced by a total of £3.3m in 2023/24.

c. Hertfordshire Departmental Efficiency Targets

Over the last few years, the constabulary has invested significant funds in developing an internal transformational capability (six sigma, service design, Prevention First, IT innovation etc.) as well as creating budgets to support invest to save schemes – circa £500k in the current financial year. Hertfordshire-only departments have been set an annual efficiency target to achieve for each of the next years four years. The overall target of £1m has been apportioned based each department's relative police staff and non-pay budgets (excl. PCSOs). Budget holders are expected to use all the tools and capability in the organisation to develop sustainable and well understood efficiency proposals which do not impact on delivery of outcomes.

d. Other Savings

A range of other savings have been identified across several constabulary budgets including, £820k from the removal of transitional police officer account, £208k through stopping the annual contribution to HCC for the Coroners service phased over two years, £500k from two further years of procurement savings from 7F procurement and finally £68k of savings from the rationalisation of the 7F Project team to a Network.

11. Capital Programme

The draft 10-year capital programme for the period and associated financing is detailed in the table below.

Capital Programme	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m	2031/32 £m	2032/33 £m	Total £m
HQ redevelopment	20.404	36.522	6.444	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**63.370**
HQ Interest Costs	0.893	1.972	2.027	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**4.892**
Watford Police Station	3.650	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**3.650**
Cheshunt Blue light hub	0.050	0.500	1.500	4.000	0.000	0.000	0.000	0.000	0.000	0.000	**6.050**
Firing range	1.137	5.390	0.758	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**7.285**
Letchworth Redevelopment	0.000	0.000	0.000	2.000	0.000	0.000	0.000	0.000	0.000	0.000	**2.000**
Joint Emergency Services Academy (JESA)	0.000	0.000	0.000	6.000	0.000	0.000	0.000	0.000	0.000	0.000	**6.000**
Monks Wood Joint Public Order Training Facility	0.105	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**0.105**
Sexual Assault Referral Centre (SARC)	0.150	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**0.150**
Estates minor works	0.650	0.250	0.250	0.250	0.250	0.250	0.250	0.250	0.250	0.250	**2.900**
Energy Efficiency & Sustainability	0.400	0.250	0.250	0.250	0.250	0.250	0.250	0.250	0.250	0.250	**2.650**
Other estates	0.150	0.150	0.150	0.150	0.150	0.150	0.150	0.150	0.150	0.150	**1.500**
ICT	4.277	2.837	2.894	2.952	3.011	3.071	3.132	3.195	3.259	3.324	**31.952**
Fleet	2.446	2.578	2.717	2.780	2.836	2.893	2.951	3.010	3.070	3.131	**28.412**
Emergency Services Network (ESN)	0.662	2.906	2.623	0.635	0.000	0.000	0.000	0.000	0.000	0.000	**6.826**
Technical and Specialist equipment	0.546	0.361	0.361	0.361	0.361	0.361	0.361	0.361	0.361	0.361	**3.795**
Total Capital	**35.520**	**53.716**	**19.974**	**19.378**	**6.858**	**6.975**	**7.094**	**7.216**	**7.340**	**7.466**	**171.537**

This draft programme assumes:

i. The completion of the redevelopment of HQ in 2025/26 at an overall project capital cost of £72.8m (balance sits in earlier years) and is subject to approval of the Final Business Case (FBC).
ii. Capitalisation of interest costs for the HQ redevelopment project circa £5.1m which are included within the costs above.
iii. Work to develop and occupy the new Watford police station in George Street will be complete in 2023/24 at a cost of £3.650m.
iv. Development of a Blue Light Hub at Cheshunt in 2024/25 to 2026/27 at a cost of £6.1m.
v. Construction of the preferred option replacement firing range at a cost of £7.5m completed by 2025/26.
vi. Redevelopment of the North Herts estate based upon enhancement of Letchworth Police Station at a cost of circa £2m in 2026/27.
vii. Investment of £0.150m in the SARC in 2023/24 on adaptation work to ensure compliance with government accreditation requirements.
viii. Investment totalling £0.400m p.a. and £0.250m p.a. thereafter towards meeting the government mandate to reduce direct emissions by 50% (compared to a 2017 baseline) by 2032.
ix. Tech & Specialist - annual programme for both Herts only and JPS units is provided for the planned replacement of specialist equipment, and to meet emerging equipment needs in areas such as ANPR, covert cameras, trap cars etc.

Areas excluded from the draft programme include:

x. Potential developments at Gilston and Hemel Garden Communities due to uncertainty to the likelihood and timing of any requirement. It is anticipated developments in these areas will also attract Section 106 funding.
xi. Other than the initial £0.105m in 2023/24, contribution towards a BCH facility at Monkswood for which the current assumption is that expenditure will be chargeable to the revenue budget.

The above draft capital programme will be funded as follows:

Financing	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m	2031/32 £m	2032/33 £m	Total £m
Capital Receipts	7.931	8.682	0.000	6.728	6.208	1.994	0.000	0.000	0.000	0.000	31.543
Borrowing	27.589	45.034	19.974	12.650	0.650	4.981	7.094	7.216	7.340	7.466	139.994
Total Financing	**35.520**	**53.716**	**19.974**	**19.378**	**6.858**	**6.975**	**7.094**	**7.216**	**7.340**	**7.466**	**171.537**

It is anticipated that the above draft capital programme will enable the generation of capital receipts as set-out in the following table:

Capital Receipts	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m	2031/32 £m	2032/33 £m
Opening Balance	-0.204	-5.773	-2.930	-2.930	-5.702	-1.994	0.000	0.000	0.000	0.000
New Capital Receipts	-13.500	0.000	0.000	-9.500	-2.500	0.000	0.000	0.000	0.000	0.000
Applied to fund capital	7.931	2.843	0.000	6.728	6.208	1.994	0.000	0.000	0.000	0.000
Closing Balance	**-5.773**	**-2.930**	**-2.930**	**-5.702**	**-1.994**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**

The above assumes:

- At least £13.5m of net capital receipt is received from the disposal of the old Watford police station site in 2023/24.
- Potential receipts totalling £9.5m are received in 2026/27 generated from the disposal of asset identified as being surplus to requirements.
- A further £2.5m capital receipts generated in 2027/28 from the disposal of police stations enabled through Fire Service co-location.
- That capital receipts are applied as they become available to fund capital expenditure on shorter-life non-current assets in order to minimise the impact of minimum revenue provision of the revenue budget.

The draft capital programme set out above is primarily funded through the Capital Financing Requirement (CFR). The CFR represents the level of capital investment that is not financed by grant, capital receipts or revenue contribution and which therefore needs to be financed either by external borrowing or internal borrowing using cash balances. The following table sets-out the anticipated level of CFR over the next 10 years.

Capital Financing Requirement	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**	**2029/30 £m**	**2030/31 £m**	**2031/32 £m**	**2032/33 £m**
Opening Balance	-53.475	-78.908	-121.168	-136.870	-142.832	-135.031	-132.051	-130.698	-129.873	-130.765
New CFR	-27.589	-45.034	-19.974	-12.650	-0.650	-4.981	-7.094	-7.216	-7.340	-7.466
MRP reduces CFR	2.156	2.774	4.272	6.687	8.451	7.961	8.448	8.041	6.448	7.823
Closing Balance	**-78.908**	**-121.168**	**-136.870**	**-142.833**	**-135.031**	**-132.051**	**-130.697**	**-129.873**	**-130.765**	**-130.408**

The level of CFR is used to control the level of external debt that can be incurred since the level of borrowing cannot, other than in the short term, exceed the CFR. It is anticipated the following levels of external borrowing will be required to main a minimum working cash balance of £5m at the end of each financial year. It should be noted that borrowing is only incurred to ensure liquidity and as such is not matched against individual assets.

Borrowing	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**	**2029/30 £m**	**2030/31 £m**	**2031/32 £m**	**2032/33 £m**
Opening Balance	-32.500	-52.500	-98.500	-114.500	-114.500	-114.500	-114.500	-114.500	-114.500	-114.500
New Debt	-20.000	-46.000	-16.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Repaid Debt	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Closing Balance	**-52.500**	**-98.500**	**-114.500**	**-114.500**	**-114.500**	**-114.500**	**-114.500**	**-114.500**	**-114.500**	**-114.500**

The table above shows that after 2025/26 it is not anticipated further borrowing will be required as the depletion of cash balances though the capital programme will be balanced against cash retained through MRP.

The following table sets-out the capital financing budgets resulting from the draft capital programme, capital receipt assumptions and borrowing forecasts set-out above. The incremental increase in these costs is included within the standstill pressures used to calculate the budget gap with the MTFS.

Capital Financing	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**	**2029/30 £m**	**2030/31 £m**	**2031/32 £m**	**2032/33 £m**
MRP	2.156	2.774	4.272	6.687	8.451	7.961	8.448	8.041	6.448	7.823
Interest Paid	1.023	1.627	3.153	5.588	5.588	5.588	5.588	5.588	5.588	5.588
Return on Investments	-0.100	-0.100	-0.100	-0.100	-0.100	-0.100	-0.100	-0.100	-0.100	-0.100
Total	**3.079**	**4.301**	**7.325**	**12.175**	**13.939**	**13.449**	**13.936**	**13.529**	**11.936**	**13.311**
% of NRE	1.2%	1.7%	2.7%	4.5%	5.0%	4.7%	4.8%	4.6%	4.0%	4.4%

A flat rate assumption of £100k p.a. return on investment has been included above in anticipation of liquidating the current £2.5m held in the CCLA.

The above levels of Minimum Revenue Provision (MRP) are based upon the annuity method whereby MRP is calculated to reflecting the reducing value of money over time by discounting at a suitable rate. The annuity method essentially keeps MRP flat in real terms (but increasing in cash terms) over the life of the asset whereas the straight-line method keeps MRP flat in cash terms (but decreasing in real terms).

12. Revenue Budget Detail[7]

The 2023/24 gross to net budget and its prior year comparator are shown below:

Gross to Net Budget	2022/23 £m	2023/24 £m
Gross Budget	**261.1**	**271.6**
Fees & Charges	(7.7)	(7.7)
Other Grants	(7.5)	(9.6)
Local Authority PCSO funding	(0.6)	(0.6)
Reserves	(1.0)	(0.5)
Net Budget	**244.3**	**253.2**

Based on the preceding information the resultant draft budget (gross) at a portfolio level is set out below:

Portfolio	Gross Budget 2022/23 £m	Gross Budget 2023/24 £m	Change £m	Change %
Collaborated Beds, Cambs, Herts	52.9	55.3	2.3	4.4%
Operational Delivery	127.2	131.2	3.9	3.1%
Strategy & Prevention	35.7	36.7	1.0	2.7%
Deputy Chief Constable	3.8	4.0	0.2	4.0%
Resources	15.1	15.7	0.6	4.1%
Corporate	13.0	15.0	2.1	16.2%
Collaborated Regional	5.5	5.7	0.2	4.4%
Collaborated National	1.1	1.1	0.0	0.2%
PCC	6.8	6.9	0.2	2.3%
Total	**261.2**	**271.7**	**10.5**	**4.0%**

[7] There may be arithmetic differences due to rounding

A high-level subjective analysis of the changes in the net budget is shown below:

Expenditure type	2022/23	2023/24	Change	Change
	£m	£m	£m	%
Police Officer Pay	131.40	136.07	4.67	3.6%
Police Officer Overtime	4.09	4.22	0.13	3.2%
Police Staff Pay	76.07	79.22	3.15	4.1%
Police Staff Overtime	0.78	0.80	0.02	3.1%
Employee Related Expenditure	2.95	3.01	0.06	2.1%
Premises Cost	8.23	8.39	0.17	2.0%
Transport Costs	3.01	3.07	0.06	2.0%
Supplies And Services	32.67	33.73	1.06	3.3%
Capital Financing	1.97	3.14	1.17	59.3%
Fees And Charges	-7.71	-7.71	0	0.0%
Specific Grants	-7.48	-9.58	-2.10	28.1%
Partner Contributions	-0.60	-0.60	0	0.0%
Net Use of Reserves	-1.04	-0.54	0.50	-47.9%
Total Net Budget	**244.34**	**253.23**	**8.89**	**3.6%**

Further detail, by department, is presented overleaf:

Units	Gross Budget 2022/23 £m	Standstill Spend Pressures & Technical Adjustments £m	Savings £m	Investment & Growth £m	DRAFT Gross Budget 2023/24 £m	Change £m	Change %
Protective Services - Beds lead							
Armed Policing Unit	4.2	0.1	0.0	0.0	4.3	0.2	4.1%
Protective Crime Command	0.6	0.0	0.0	0.0	0.6	0.0	5.1%
Dog Unit	1.3	0.0	0.0	0.0	1.4	0.0	3.8%
Major Crime Unit	3.8	0.1	0.0	0.0	3.9	0.2	4.5%
Operational Support Units	0.5	0.0	0.0	0.0	0.5	0.0	4.2%
Professional Standards Unit	2.4	0.1	0.0	0.1	2.7	0.2	9.9%
Civil Contingency Units	0.2	0.0	0.0	0.0	0.2	0.0	6.1%
Roads Policing Units	5.5	0.2	0.0	0.1	5.7	0.2	4.2%
Scientific Services Unit	5.2	0.2	0.0	0.1	5.5	0.2	4.7%
Sub-total Protective Services	**23.6**	**0.8**	**0.0**	**0.4**	**24.8**	**1.2**	**4.9%**
Operational Support - Herts lead							
Collaborated Criminal Justice	1.7	0.1	0.0	0.0	1.8	0.1	5.8%
Camera Tickets & Collisions	2.5	0.1	0.0	0.0	2.6	0.1	4.9%
Firearms Licensing	0.3	0.0	0.0	0.0	0.3	0.0	5.8%
ICT	12.7	0.2	0.0	0.1	13.0	0.3	2.3%
Delivery Management Office	0.7	0.0	0.0	0.0	0.8	0.0	5.5%
Sub-total Operational Support	**18.0**	**0.4**	**0.0**	**0.1**	**18.6**	**0.6**	**3.1%**

Units	Gross Budget 2022/23 £m	Standstill Spend Pressures & Technical Adjustments £m	Savings £m	Investment & Growth £m	DRAFT Gross Budget 2023/24 £m	Change £m	Change %
Organisational Support - Cambs lead							
Human Resources	8.8	0.3	0.0	0.1	9.2	0.4	4.9%
Information Management Dept	2.3	0.1	0.0	0.0	2.5	0.1	6.1%
Uniform Stores	0.1	0.0	0.0	0.0	0.2	0.0	6.9%
Police Uplift Programme (PUP) Board	0.1	0.0	0.0	0.0	0.1	0.0	5.0%
Sub-total Organisational Support	**11.3**	**0.4**	**0.0**	**0.1**	**11.9**	**0.6**	**5.2%**
Sub-total Collaborated Beds, Cambs, Herts	**52.9**	**1.7**	**0.0**	**0.7**	**55.3**	**2.3**	**4.4%**
Operational Delivery							
Local Crime Unit	25.3	0.9	-0.3	0.3	26.1	0.8	3.3%
Local Policing Command	93.3	3.3	-2.3	1.1	95.4	2.1	2.3%
Police Uplift Programme	8.7	-0.2	-1.6	2.8	9.6	1.0	11.2%
Sub-total Operational Delivery	**127.2**	**4.0**	**-4.2**	**4.2**	**131.2**	**3.9**	**3.1%**
Strategy & Prevention							
Collaborated Custody & Criminal Justice	1.6	0.0	-0.4	0.0	1.3	-0.3	-20.6%
Crime Reduction & Community Safety	0.2	0.0	-0.1	0.0	0.1	-0.1	-37.9%
Force Communications Room (FCR)	17.2	0.8	-0.4	0.3	17.9	0.6	3.7%
Operations	2.7	0.1	-0.1	0.0	2.8	0.1	3.4%
Organisational Strategy, Performance & Analysis	2.3	0.1	-0.1	0.0	2.3	0.1	3.6%
Prevention First Command	4.2	0.1	-0.1	0.1	4.4	0.1	3.5%
Transformation	0.8	0.0	0.0	0.0	0.8	0.0	3.7%
Operational Strategy	1.1	0.0	0.0	0.0	1.1	0.0	3.4%
Custody	5.7	0.2	-0.1	0.2	6.0	0.4	6.2%
Sub-total Strategy & Prevention	**35.7**	**1.4**	**-1.1**	**0.7**	**36.7**	**1.0**	**2.7%**

Units	Gross Budget 2022/23 £m	Standstill Spend Pressures & Technical Adjustments £m	Savings £m	Investment & Growth £m	DRAFT Gross Budget 2023/24 £m	Change £m	Change %
Deputy Chief Constable							
Corporate Communications	1.1	0.0	0.0	0.2	1.3	0.2	23.1%
Insurance	1.4	0.0	0.0	0.0	1.5	0.0	2.9%
Legal Services	1.0	0.0	-0.2	0.0	0.8	-0.1	-14.4%
Design & Print Service	0.4	0.0	0.0	0.0	0.4	0.0	1.8%
Sub-total Deputy Chief Constable	**3.8**	**0.1**	**-0.2**	**0.3**	**4.0**	**0.2**	**4.0%**
Resources							
Estates And Facilities	9.7	0.6	-0.2	0.0	10.1	0.4	4.2%
People & Workforce Develop	3.6	0.1	-0.1	0.1	3.8	0.2	5.2%
Finance	1.8	0.1	-0.1	0.0	1.8	0.0	1.3%
Sub-total Resources	**15.1**	**0.8**	**-0.4**	**0.2**	**15.7**	**0.6**	**4.1%**
Corporate budgets							
Capital Financing	2.0	1.2	0.0	0.0	3.1	1.2	58.9%
Force Account	6.3	2.0	-1.2	0.0	7.2	0.9	13.8%
Major Incidents	0.1	0.0	0.0	0.0	0.1	0.0	-16.0%
Pensions & Redundancies	1.1	0.0	0.0	0.0	1.1	0.0	0.2%
Secondments	0.5	0.0	0.0	0.0	0.5	0.0	3.8%
Staff Associations	0.5	0.0	0.0	0.0	0.5	0.0	3.7%
Uniforms	0.7	0.0	0.0	0.0	0.7	0.0	0.1%
Fleet	1.7	0.0	0.0	0.0	1.8	0.0	2.0%
Sub-total Corporate	**13.0**	**3.3**	**-1.2**	**0.1**	**15.0**	**2.1**	**16.2%**

Units	Gross Budget 2022/23 £m	Standstill Spend Pressures & Technical Adjustments £m	Savings £m	Investment & Growth £m	DRAFT Gross Budget 2023/24 £m	Change £m	Change %
Regional							
E R S O U (Regional)	5.1	0.2	0.0	0.1	5.3	0.2	4.7%
7F Commercial Services	0.4	0.0	0.0	0.0	0.4	0.0	0.3%
Sub-total Regional	**5.5**	**0.2**	**0.0**	**0.1**	**5.7**	**0.2**	**4.4%**
National							
Air Support Unit (NPAS)	1.1	0.0	0.0	0.0	1.1	0.0	0.2%
Sub-total National	**1.1**	**0.0**	**0.0**	**0.0**	**1.1**	**0.0**	**0.2%**
Police & Crime Commissioner							
PCC Commissioning Budget	4.5	0.0	0.0	0.0	4.5	0.0	0.7%
Office Of The PCC	2.3	0.1	0.0	0.0	2.4	0.1	5.5%
Sub-total PCC	**6.8**	**0.1**	**0.0**	**0.0**	**6.9**	**0.2**	**2.3%**
Grand total	**261.2**	**11.6**	**-7.2**	**6.1**	**271.7**	**10.5**	**4.0%**

13. Precept Summary

	£'000
Budget Requirement	253,232
Less Government Funding	-142,226
To be met from council tax (incl. collection fund)	**111,006**

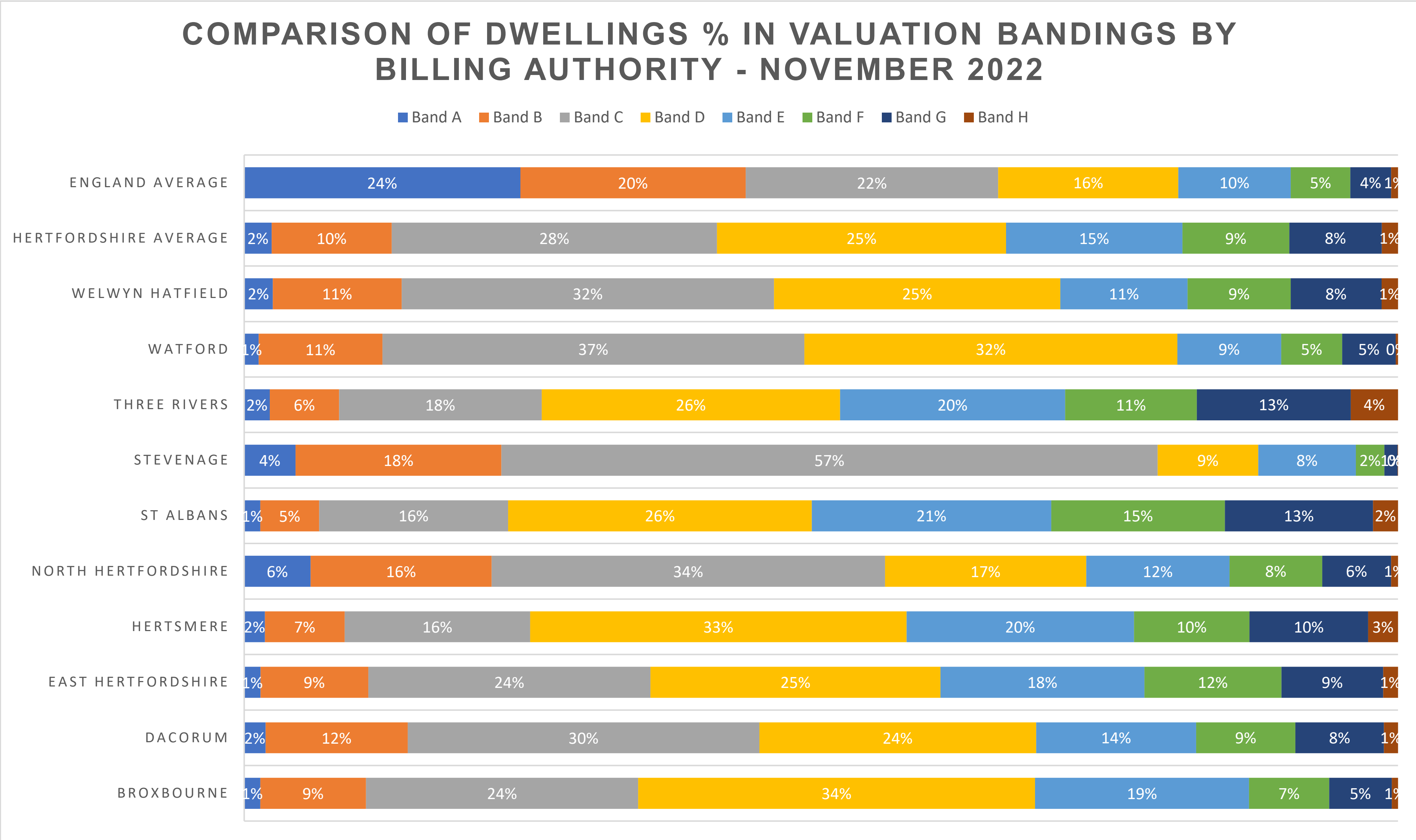
To be collected from the 10 Billing Authorities as follows:

Billing Authority	**2023/24 Tax Base**	**Precept Amount @ £238**	**Draft Surplus/ (Deficit) on Collection Fund***	**Total Payments Due**
	No.	**£**	**£**	**£**
Broxbourne Borough Council	36,317	8,643,494	40,000	8,683,493.60
Dacorum Borough Council	60,070	14,296,636	40,000	14,336,636.20
East Herts District Council	63,893	15,206,486	40,000	15,246,486.40
Hertsmere Borough Council	43,176	10,275,912	40,000	10,315,911.80
North Herts District Council	50,605	12,044,014	40,000	12,084,013.80
St Albans District Council	64,002	15,232,381	40,000	15,272,380.80
Stevenage Borough Council	28,153	6,700,438	40,000	6,740,437.80
Three Rivers District Council	39,401	9,377,438	40,000	9,417,438.00
Watford Borough Council	35,247	8,388,774	40,000	8,428,774.10
Welwyn Hatfield District Council	43,867	10,440,370	40,000	10,480,369.80
TOTAL	**464,731**	**110,605,945**	**400,000**	**111,005,944.68**

*Equal split for illustrative purposes

Based on the following valuation bandings:

Band	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**
Proportion of Band D charge	6/9ths	7/9ths	8/9ths	**9/9ths**	11/9ths	13/9ths	15/9ths	18/9ths
2022/23 Charge £	148.67	173.44	198.22	**223.00**	272.56	322.11	371.67	446.00
2023/24 Charge £	158.67	185.11	211.56	**238.00**	290.89	343.78	396.67	476.00
Precept increase £ per annum	10.00	11.67	13.34	**15.00**	18.33	21.67	25.00	30.00
Precept increase £ per month	0.83	0.97	1.11	**1.25**	1.53	1.81	2.08	2.50
Precept increase £ per week	0.19	0.22	0.26	**0.29**	0.35	0.42	0.48	0.58
Precept increase £ per day	0.03	0.03	0.04	**0.04**	0.05	0.06	0.07	0.08



COMPARISON OF DWELLINGS % IN VALUATION BANDINGS BY BILLING AUTHORITY - NOVEMBER 2022
Band A
Band B
Band C
Band D
Band E
Band F
Band G
Band H
ENGLAND AVERAGE
24% 20% 22% 16% 10% 5% 4% 1%
HERTFORDSHIRE AVERAGE
2% 10% 28% 25% 15% 9% 8% 1%
WELWYN HATFIELD
2% 11% 32% 25% 11% 9% 8% 1%
WATFORD
1% 11% 37% 32% 9% 5% 5% 0%
THREE RIVERS
2% 6% 18% 26% 20% 11% 13% 4%
STEVENAGE
4% 18% 57% 9% 8% 2% 1%
ST ALBANS
1% 5% 16% 26% 21% 15% 13% 2%
NORTH HERTFORDSHIRE
6% 16% 34% 17% 12% 8% 6% 1%
HERTSMERE
2% 7% 16% 33% 20% 10% 10% 3%
EAST HERTFORDSHIRE
1% 9% 24% 25% 18% 12% 9% 1%
DACORUM
2% 12% 30% 24% 14% 9% 8% 1%
BROXBOURNE
1% 9% 24% 34% 19% 7% 5% 1%

14. Office of the Police & Crime Commissioner (OPCC)

The PCC's overall net revenue budget for 2023/24 is £4.741m of which £2.301m relates to the Office of the PCC, and this represents 0.91% of Hertfordshire policing's net budget. This is below Government expectations that the running costs and day to day expenditure of PCCs should be less than 1 per cent of the total cost of policing[8].of which £2.301m relates to the Office of the PCC, and this represents 0.91% of Hertfordshire policing's net budget. This is below Government expectations that the running costs and day to day expenditure of PCCs should be less than 1 per cent of the total cost of policing[9].

	2022/23 £'000	2023/24 £'000	Change £'000
OPCC Budget	2,166	2,301	135
Criminal Justice Board (CJB)	141	147	6
Victims Services	1,518	2,245	727
Road Safety Expenditure	725	725	0
PCC Grants	2,233	2,233	0
PCC Gross Budget	**6,783**	**7,651**	**868**
Road Safety Income	-725	-725	0
Ministry of Justice Grant Income	-1,382	-2,109	-727
PCC Net Budget	**4,676**	**4,817**	**141**

The OPCC and CJB budget increase of £0.141m[10] includes £0.075m for the establishment of two additional posts within the Complaints Resolution Team and Policy Team. The remainder of the increase (£0.066m) is due to a combination of the 2022/23 nationally determined pay award of £1,900 per annum and the recruitment and retention initiative in relation to staff pay scales.

The additional £0.727m for Victims Services relates to the additional services being commissioned because of receiving extra Government funding from the Ministry of Justice.

It should also be noted that unlike the vast majority of OPCCs the cost of initial handling of police complaints is borne by the OPCC rather than the police force.

9 Source: Staff and budget for police and crime commissioners - GOV.UK (www.gov.uk)

10 These figures do not include any impact of any potential 2023/24 pay awards, as these are built into the overall staff pay inflation overall increase

15. Statutory assurances & strategies

In addition to setting the annual budget the Commissioner must ensure that the policies/strategy set out in appendices A to E are in place prior to the start of the financial year.

- Appendix A - Reserves Strategy
- Appendix B - Robustness of Estimates
- Appendix C - Treasury Management Strategy (TMS)
- Appendix D - Minimum Revenue Provision (MRP)
- Appendix E - Capital Strategy

Appendix A - Reserves Strategy

The organisation must ensure a prudent minimum level is retained to deal with unexpected events. It must be recognised however, that as a complex £270m plus organisation some reserves will always be needed to address business issues and risks, including major incidents, which may require significant resources for a prolonged period.

General Reserve

The General Reserve is a statutory contingency reserve to fund unplanned and emergency expenditure, for example to meet exceptional or extraordinary policing operations and major issues Reserves are maintained by the Police and Crime Commissioner based on the following principles:

- unforeseen emergencies, such as a terrorist incident or major investigation,
- changes in the demand for policing,
- managing the timing of making savings,
- costs of national programmes,
- funding the first 1% of costs for major events in-line with Home Office grant rules;
- and uneven cashflows.

The Chief Financial Officer (CFO) is required under Section 25 of the Local Government Act 2003, to review and report on the adequacy of reserves as part of budget-setting process. In setting the 2023/24 budget the PCC's level of general reserves has been set at £12.6m (or 4.64% of the £272m gross budget), which in the CFO's view is an appropriate and prudent level; furthermore, this reserve level remains is below the 5% level that requires justification to be provided to the Home Office.

To assess the adequacy of unallocated general reserves (otherwise known as general balances) during the budget setting process the advice of the two chief finance officers, should take account of the strategic, operational, and financial risks facing the organisation: both internal and external.

The table below examines how Hertfordshire currently complies with the 7 key CIPFA principles to assess the adequacy of reserves.

[9] Based on 2022/23 net revenue budget of £244.34m

Budget assumptions	Current situation
The treatment of inflation and interest rates	Hertfordshire makes full and appropriate provision for pay and price rises, as appropriate. Pay inflation is determined by the government setting police officer pay rates following advice from the Police Remuneration Review Body (PRRB) with affordability being a key consideration. An informed assessment is made of interest rate movements using external sources such as Bank of England (BoE), Office of National Statistics (ONS) and Office for Budget Responsibility (OBR). All individual expenditure and income heads in the revenue budget is prepared and published at estimated outturn prices.
Estimates of the level and timing of capital receipts	We make a judicious assumption of future capital receipts. Currently there are £25.5m of planned capital receipts over the medium-term.

The treatment of demand led pressures	The Constabulary has been able to accommodate the additional costs arising from the various major incidents without asking the PCC for additional reserve funding. The Constabulary has identified £11.3m of cashable savings which will be removed from the budget over the next four years (2023/24 to 2026/27). Some government grants are announced annually in advance and are cash limited. Any new policing pressures arising during the year will have to be funded from the organisation's own resources. The Commissioner has created earmarked revenue reserves to help finance potential specific, ad-hoc expenditure. Appropriations are made to and from these reserves on an annual basis, as required. Finally, general balances are used as a last resort to manage extraordinary unforeseen spending requirements.
The treatment of planned efficiency savings/productivity gains.	The Constabulary has consistently achieved its annual efficiency/savings target. All savings are assessed in terms of deliverability. The medium-term plan anticipates a funding gap of circa. £16.6m from 2024/25 up until the end of 2026/27 if there are no council tax increase over that period.

The financial risks inherent in any significant new funding partnerships, collaboration, major outsourcing arrangements, or major capital developments	The financial consequences of working collaboratively, outsourcing arrangements or capital investment are incorporated as part of the medium-term planning process. Where relevant and quantifiable, any additional costs are incorporated in the annual revenue budget and/or capital programme. There is clearly a risk that local authority partners will look to withdraw funding, for example for match funded PCSOs or joint estates initiatives, as priorities change, or their own budgets are squeezed, in which case we would look to reduce the grants as an offset. Also, the continued financial viability of private sector service providers will be exposed to increased risks from inflationary and supply-chain pressures.

The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions	Hertfordshire has created several earmarked revenue reserves and provisions to meet specific expenditure items. For example, Hertfordshire maintains an insurance provision; the adequacy of which is determined annually by a firm of qualified insurance actuaries. The access criteria for special grants state that PCCs may be required to fund up to 1% of their net budget requirement themselves before Government considers grant aid. This applies on an annual basis. Previously Hertfordshire has successfully applied for and received grant monies for Operation Isobar; the policing of the NATO summit in December 2019. As part of the year-end audit process, the organisation stress-tests its balance sheet i.e., reserves, by varying several key parameters, to demonstrate to the external auditors that the organisations' ability to continue as a going concern.

The general financial climate to which the authority is subject.	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 organisation's ability to plan with any certainty. The Bank of England (BoE) increased Bank Rate by 0.5% to 3.5% in December 2022. This followed a 0.75% rise in November which was the largest single rate hike since 1989 and the ninth successive rise since December 2021. 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 contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and 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 have peaked 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 at the time of the November MPR (a peak of 5.25%). However, the BoE stated it considered 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. Market rates have fallen since the time of the November MPR. The labour market remains tight for now, with the most recent statistics showing the unemployment rate was 3.7%. Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%. Looking forward, the November 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. The Home Office has commenced the Police Funding Formula Review (PFFR) and the impact of Hertfordshire is unknown and the timing of the outcome is yet to be confirmed. Further afield, if the continuing tensions between China and Taiwan were to escalate then access to computer chips is likely to be significantly impacted inevitably leading to supply-side inflationary pressures.

The table below details the levels of reserves held by the Commissioner as of April 2023 and their anticipated use in 23/24.

	Opening Balance 22/23 £m	**22/23 use £m**	**In-year reallocation between reserves £m**	**Opening balance 23/24 £m**	**Planned use 23/24 £m**	**Closing Balance 23/24 £m**
Base Budget Support Reserve	10.941	0	-4.862	6.079	0	6.079
Road Safety Fund	1.994	-0.540	0	1.454	-0.540	0.914
Unconditional Funding Reserve	0.405	-0.405	0	0	0	0
Sexual Assault Referral Services Reserve	0.674	0	0	0.674	0	0.674
Covid Related Funding	0.542	-0.542	0	0	0	0
Emergency Services Network Reserve	0.262	0	0	0.262	0	0.262
Self-Insurance Fund Reserve	1.451	0	0.262	1.713	-1.457	0.256
Total Specific Reserves	**16.269**	**-1.487**	**-4.600**	**10.182**	**-1.997**	**8.185**
Police Fund	8.000	0	4.600	12.600	0	12.600
Total Reserves	**24.269**	**-1.487**	**0**	**22.782**	**-1.997**	**20.785**

The proposed use of reserves in 2023/24 is:

- Road Safety Funding £0.540m – continued utilisation of accumulated funds received from motorists attending the National Driver Offender Retraining Scheme (NDORS).
- Self-insurance claims reserve £1.457m – the required level and potential use of this reserve are based on actuary's central estimate of payments for Employer's Liability, Public Liability, Motor (3rd party liability) and Property claims.
- In addition to the revenue reserves listed above the Commissioner currently holds £0.204m of capital reserves and these will be fully applied by the end of 2023/24.

Appendix B - Robustness of Estimates

Under Section 25 of the Local Government Act 2003 the Chief Financial Officer of the Police and Crime Commissioner is required to report on the robustness of the estimates included in the proposals above.

The estimates included within this report have been compiled by qualified financial staff within the Constabulary, in consultation with budget managers, the Chief Officer Team in both the Constabulary and OPCC and the Strategic Executive Board and have been overseen by both the Chief Finance Officer and Director of Resources.

The preparatory work on the 2023/24 budget and resultant medium-term financial strategy started in September 2022 and has since been informed by the Chancellor's Autumn Statement in November 2022 and the release of the Provisional Police Grant settlement on 16 December 2021 (which is detailed in this report).

Prior to these announcements scenario analysis was undertaken to prepare for various budget strategies informed initially by our best assumptions around the grant levels, taxbase changes and inflationary pressures. The Constabulary and Commissioner's office have worked closely together, and both have provided input, through periodic meetings, which have fed into both the revised budget preparation and the medium-term plan. This is achieved through regular dialogue between the Chief Finance Officers and, more formally, via reports to the Strategic Executive Board.

The biggest area of uncertainty is around the future cost pressures from inflation and pay increases; especially with CPI currently at 10.7% (November 2022) and expected to remain relatively high over the short to medium term. The pay inflation assumption of 2% is based upon the original CSR figures from October 2021, however, the ongoing pay disputes within the NHS, rail and postal services are likely to factor into any pay recommendations submitted by the Police Remuneration Review Body (PRRB) and subsequently accepted by Government. If these were to be above those factored into the medium-term plan, then it is the Commissioner's belief that the additionality will be fully funded by the Government, otherwise it will have to be funded through either council tax increases and/or additional cost savings.

The PCC is reminded that his responsibility for setting the annual budget and council tax precept for 2023/24 should also take-into-account whether the budget and service plans are relevant, affordable, and sustainable in the longer-term. In doing so, he will need to satisfy himself that services and resource allocation have been appropriately prioritised and that financial risks have been adequately addressed and covered by, for example, reserves, contingencies, and risk mitigation plans.

The PCC CFO confirms that all the required statutory assurances can be made.

Appendix C – Draft Treasury Management Strategy (TMS)

REPORT OF THE CHIEF FINANCE OFFICER OF THE OFFICE OF THE POLICE AND CRIME COMMISSIONER

1. Purpose

1.1. The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services (the CIPFA Code) requires authorities to determine the Treasury Management Strategy Statement (TMSS) before the start of each financial year.

1.2. This report fulfils the Office of the Police and Crime Commissioner's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2. Recommendation

2.1. That the Treasury Management Strategy for 2023/24 and the remainder of 2022/23 is approved; and

2.2. That authority is delegated to the Chief Finance Officer, who in turn delegates to Hampshire County Council's Director of Corporate Operations, as agreed in the Service Level Agreement, to manage the Police and Crime Commissioner's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

3. Introduction

3.1. Treasury management is the management of the Police and Crime Commissioner's (PCC) cash flows, borrowing and investments, and the associated risks. The PCC has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the PCC's prudent financial management.

3.2. Treasury risk management at the PCC is conducted within the framework of the CIPFA Code which requires the PCC to approve a Treasury Management

Strategy Statement (TMSS) before the start of each financial year. This report fulfils the PCC’s legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

3.3. With effect from February 2022 Hampshire County Council and the PCC established arrangements for the delegation of the treasury management function under Section 18 of the Police Reform and Social Responsibility Act 2011. Under this arrangement, Hampshire County Council’s Investments and Borrowing Team provide a Treasury Service which includes the management of the PCC’s cash balances and investment of surplus cash, as well as the sourcing of borrowing in accordance with the agreed Treasury Management Strategy Statement. Overall responsibility for treasury management remains with the PCC. No treasury management activity is without risk; the effective identification and management of risk are integral to the PCC’s treasury management objectives.

3.4. As part of this arrangement, Arlingclose is contracted as treasury management adviser, with a joint contract in place until the contract end date, at which point, following a procurement exercise on behalf of its partners, Hampshire County Council will contract with a treasury management adviser for a further defined duration.

4. External Context

4.1. The following paragraphs explain the economic and financial background against which the TMSS is being set.

Economic background

4.2. 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 PCC’s treasury management strategy for 2023/24.

4.3. The Bank of England (BoE) increased Bank Rate by 0.75% to 3.00% in November 2022, and a further 0.50% to 3.50% in December 2022.

4.4. 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.

4.5. 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.

4.6. 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.

Credit outlook

4.7. 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.

4.8. 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.

4.9. However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their 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

4.10. 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.

4.11. 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.

4.12. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix 1.

5. Balance Sheet Summary and Forecast

5.1. On 31 December 2022, the PCC held £25.5m of borrowing and £10.0m of investments. This is set out in further detail at Appendix 2. Forecast changes in these sums are shown in the balance sheet analysis in Table 1.

Table 1: Balance sheet summary and forecast

	31/03/22 Actual £m	**31/03/23 Estimate £m**	**31/03/24 Forecast £m**	**31/03/25 Forecast £m**	**31/03/26 Forecast £m**
General Fund CFR	40.1	53.5	78.9	121.2	136.9
Other CFR	0.0	0.0	0.0	0.0	0.0
Total CFR	**40.1**	**53.5**	**78.9**	**121.2**	**136.9**
Less: External borrowing*	(25.5)	(25.5)	(25.5)	(25.5)	(25.5)
Internal borrowing	**14.6**	**28.0**	**53.4**	**95.7**	**111.4**
Less Balance sheet resources:	(24.3)	(22.8)	(20.8)	(20.8)	(20.8)
New borrowing or (investments)	**(9.7)**	**5.2**	**32.6**	**74.9**	**90.6**

* shows only loans to which the PCC is committed and excludes optional refinancing

5.2. 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.

5.3. The PCC has an increasing CFR due to increased spending on the capital programme but expects to be unable to fund this fully from its investment balances and therefore will be required to externally borrow over the forecast period. The increase in the Loans CFR is due to significant investment being made on several large-scale projects, most notably the redevelopment of the Headquarters, a joint firing range and a public order training facility. The total CFR also includes the impact of the introduction of the new accounting standard for leases (IFRS 16), which changes the way the PCC accounts for leases but does not affect the overall revenue budget. The overall Capital Programme is detailed in the Medium-Term Financial Strategy report which shows that capital expenditure is expected to be funded through borrowing and capital receipts.

5.4. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the PCC's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the PCC expects to comply with this recommendation during 2023/24.

Liability benchmark

5.5. 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 the same forecasts as Table 1, but that cash and investment balances are kept to a minimum level of £2m at each year-end to maintain sufficient liquidity but minimise credit risk.

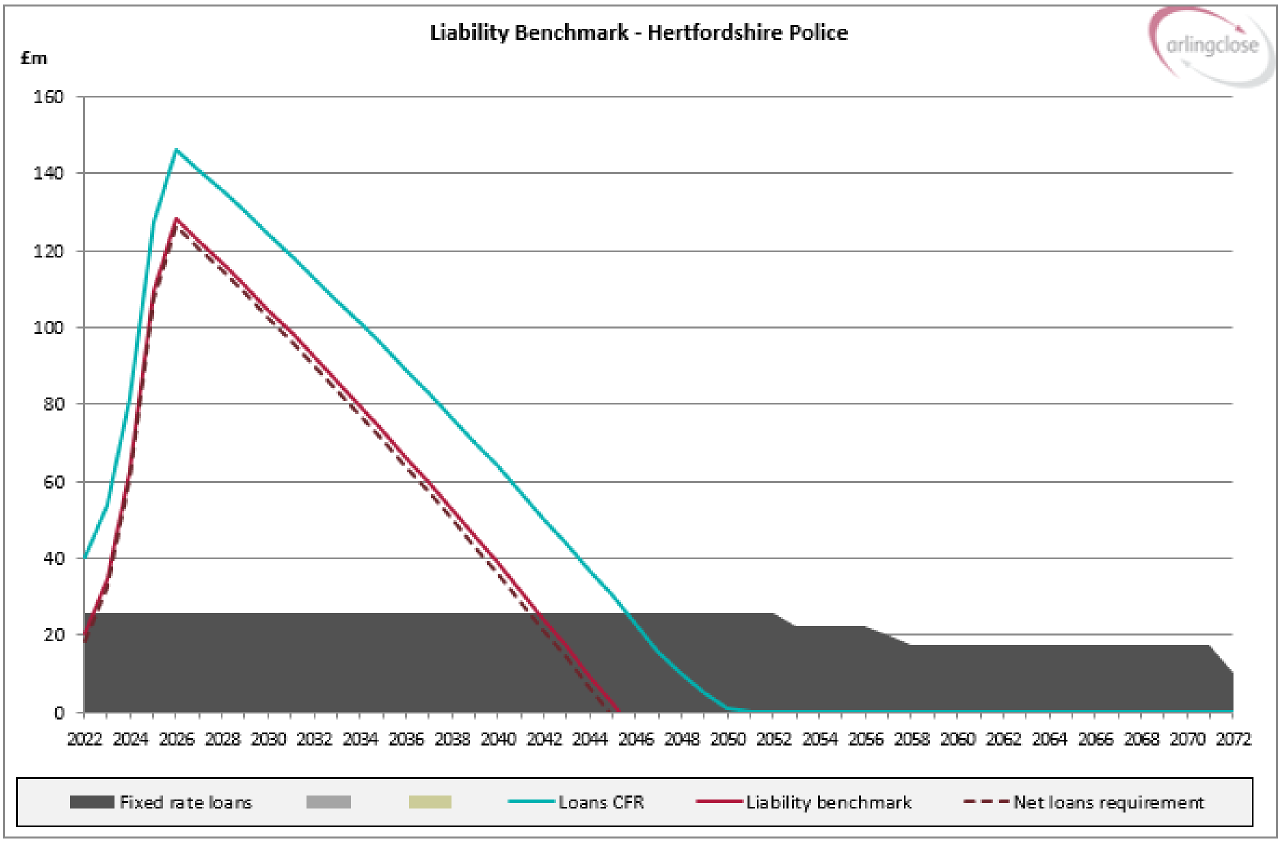
5.6. The liability benchmark is an important tool to help establish whether the PCC is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external 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.

Table 2: Liability benchmark

	31/03/22 Actual £m	31/03/23 Estimate £m	31/03/24 Forecast £m	31/03/25 Forecast £m	31/03/26 Forecast £m
Total CFR	40.1	53.5	78.9	121.2	136.9
Less: Balance sheet resources	(24.3)	(22.8)	(20.8)	(20.8)	(20.8)
Net loans requirement	**15.8**	**30.7**	**58.1**	**100.4**	**116.1**
Plus: Liquidity allowance	2.0	2.0	2.0	2.0	2.0
Liability benchmark	**17.8**	**32.7**	**60.1**	**102.4**	**118.1**

5.7. At the start of the period, 31 March 2022, the PCC had a Loans CFR of £40.1m, external borrowing of £25.5m, balance sheet resources of £24.3m and a liability benchmark of £17.8m. The difference of £14.6m between the CFR and external borrowing is internal borrowing which is where the PCC has used its own resources to fund its borrowing requirement.



5.8. The liability benchmark is the lowest level of debt the PCC could hold if it used all of its balances, reserves and cash flow surpluses to fund its CFR. The PCC expects a positive liability benchmark across the forecast period, which generally means an authority is required to take external borrowing to fund the gap between its resources and the CFR. Where the liability benchmark rises above the current borrowing level on the Liability Benchmark chart, this indicates that further external borrowing is required.

5.9. Due to the levels of existing external borrowing in addition to the balance sheet resources available at 31 March 2023, it is expected that an addition £7.0m of further long term external borrowing is required to be committed to during 2023/24.

5.10. Based on current estimates it is expected that by 31 March 2023 the Loans CFR will rise to £53.5m, net balance sheet resources will be £22.8m and existing external borrowing totals £25.5m. Therefore, the combination of balance sheet resources and existing external borrowing are not expected to be sufficient to match the CFR, and this borrowing requirement is expected to continue to rise until 2026/27. As a result, further borrowing will be considered by the Chief Financial Officer over the coming months, if required.

5.11. A limitation of liability benchmarking is that the further out the forecast, the less it can be relied upon and so as time passes, the requirement to borrow may change and either may not be there for the whole period or alternatively cash flow requirements that are not known about today may become present later which may require the PCC to take additional external borrowing in the future.

6. Borrowing Strategy

6.1. The PCC currently holds £25.5m of loans as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 1 shows that the PCC may need to borrow up to £7.0m in 2023/24 to maintain an average minimum cash balance of £10m, dependent on delivery of the capital programme. The PCC may also borrow to pre-fund future years' requirements, providing total borrowing does not exceed the authorised limit for borrowing of £80.5m.

Objectives

6.2. The PCC's 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.

Strategy

6.3. 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 where possible or to borrow short-term loans to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

6.4. The benefits of internal and 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 PCC with this 'cost of carry' and breakeven analysis, and this will used to help 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.

6.5. The PCC has previously raised long-term borrowing from the PWLB and will also consider long-term loans from other sources including banks, pension funds 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. PWLB loans are no longer available to local authorities (including police and crime commissioners) planning to buy investment assets primarily for yield; the

PCC's investment strategy does not support this activity and so will retain its access to PWLB loans.

6.6. The PCC may also arrange forward starting loans during 2023/24, 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 (although there are no current plans to do this).

6.7. In addition, the PCC may borrow short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

Sources of borrowing

6.8. 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 Hampshire 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

6.9. 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

LOBOs

6.10. A LOBO loan is where the lender has the option to propose an increase in the interest rate at set dates, following which the borrower has the option to either accept the new rate or to repay the loan at no additional cost. The PCC held £10.0m of LOBO (Lender's Option Borrower's Option) loans, however Barclays removed the option on both sides therefore these loans are now considered to be fixed market loans. Total borrowing via LOBO loans is limited to the current level of £10.0m.

Short-term and variable rate loans

6.11. These loans leave the PCC exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators at section 8 of this strategy.

Debt rescheduling

6.12. 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.

7. Treasury Investment Strategy

7.1. The PCC holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the PCC's treasury investment balance has ranged between £4.9m and £41.8m, and as shown in Table 1, however it is expected that balances will fall between now and 31 March 2023 as shown in Table 1.

Objectives

7.2. The CIPFA Code 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. The PCC aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy

7.3. Given the increasing risk and very low returns from short-term unsecured bank investments, the PCC aims to hold investments that provide diversification through greater security and/or higher yielding asset classes during 2023/24.

7.4. At 31 December 2022 approximately 25.0% of the PCC's investment balances were invested so that they were not subject to bail-in risk, as they were invested in the strategic pooled property fund.

7.5. Of the 73.4% of investment balances that were subject to bail-in risk, 43.1% was held in overnight money market funds which are subject to a reduced risk of bail-in due to the high level of diversification within it, and 38.8% was held in overnight bank call accounts for liquidity purposes. Further detail is provided at Appendix B.

Environmental, social and governance factors

7.6. 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 does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the PCC will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for

Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Business models

7.7. Under the new IFRS 9 standard, the accounting for certain investments depends on the ‘business model’ for managing them. The PCC aims to achieve value from its internally managed treasury investments through a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Investments targeting higher returns

7.8. In order to minimise the risk of receiving unsuitably low investment income, the PCC has continued to invest a proportion of core balances in an externally managed pooled fund investing in pooled property as part of its higher yielding strategy. This allows diversification into asset classes other than cash without the need to own and manage the underlying assets.

7.9. The fund operates on a variable net asset value (VNAV) basis and offers diversification of investment risk, coupled with the services of a professional fund manager; it also offers the potential for enhanced returns over the longer term but is likely to be more volatile in the short-term. The PCC’s pooled fund investment is in the fund’s distributing share class which pays out the income generated.

7.10. The CIPFA Code requires the PCC to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest yield. As a result, the PCC’s investment targeting higher yields has been made from its most stable balances and with the intention that it will be held for at least the medium term. This means that the initial costs of any investment and any periods of falling capital values can be overcome and mitigates the risk of having to sell an asset for liquidity purposes, helping to ensure the long-term security of the PCC’s investment.

7.11. As illustrated in the graph below, the PCC's pooled fund investment fell considerably in value during the coronavirus pandemic, reaching a low in August 2020, before recovering to a peak in June 2022. However, since then values have declined by circa.19% since this peak to December 2022. This means that this investment is now worth less than the initial sums invested by 4%, as shown in Table 3, demonstrating the importance of taking a longer-term approach and being able to ride out periods of market volatility, ensuring the PCC is not a forced seller at the bottom of the market.

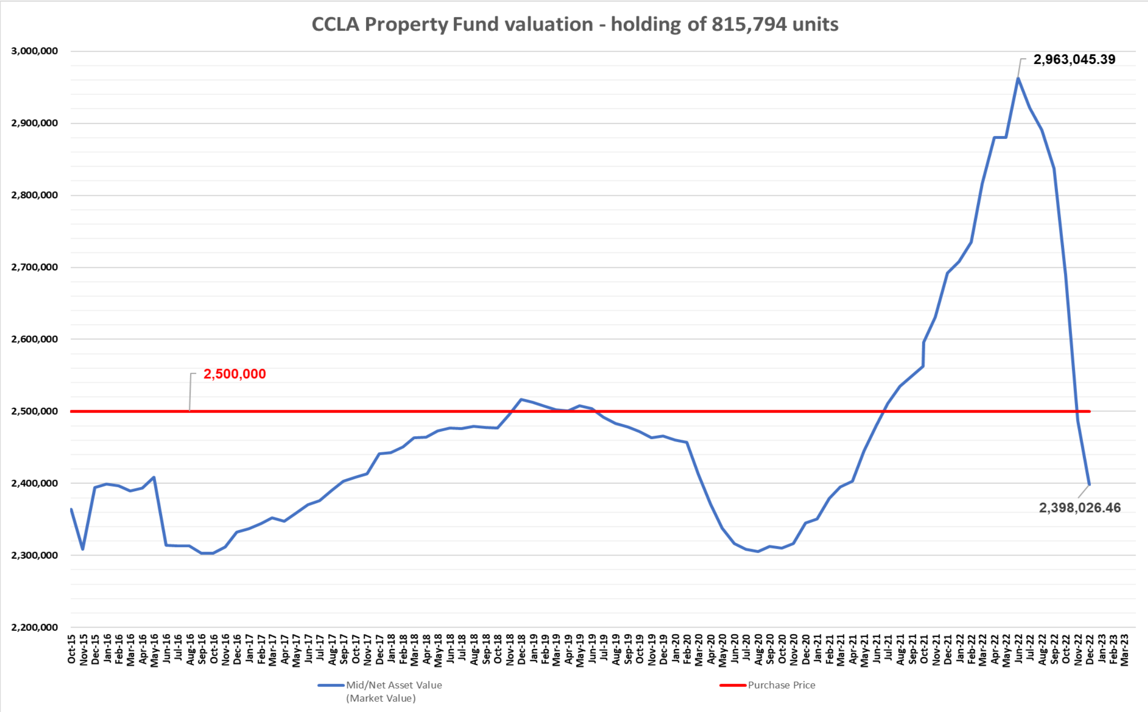


Table 3: Higher yielding investments - market value performance

	Amount invested	Market value at 31/12/2022	Gain/(fall) in capital value	
			Since purchase	One year
	£m	£m	£m	£m
Pooled property fund	2.500	2.398	(0.102)	(0.294)
Total	**2.500**	**2.398**	**(0.102)**	**(0.294)**

7.12 Ordinarily the money can be redeemed from the pooled fund at short notice[11] however, the CCLA recently imposed a temporary extension to the

[11] Currently requires 6 months' notice (October 2022)

redemption notice period 90 days to 6 months, due to current uncertainty in the property market. Therefore, this investment must be viewed as a long-term investment from core balances not required for immediate liquidity requirements. This ensures that even in times of market volatility, the PCC will not be a forced seller and will not crystalise capital losses.

7.12. The IFRS 9 accounting standard that was introduced in 2018/19 means that annual movements in the capital values of investments need to be reflected in the revenue account on an annual basis, although a five-year statutory override was put in place for local authorities that exempts them from complying with this requirement. This is due to expire on 31 March 2023, however the Government have recently consulted on the whether to extend, remove or make the override permanent.

7.13. The PCC's long-term pooled fund investment is expected to bring benefits to the revenue budget through higher yields than can be achieved on cash investments. As shown in Table 4, without the allocation to pooled funds the weighted average return of the PCC's cash investments would have been 1.8%. By investing in pooled funds, the weighted average return at 31 December 2022 was 2.3%, meaning the allocation to higher yielding investments has added 0.5% to the average interest rate earned by the remainder of the portfolio.

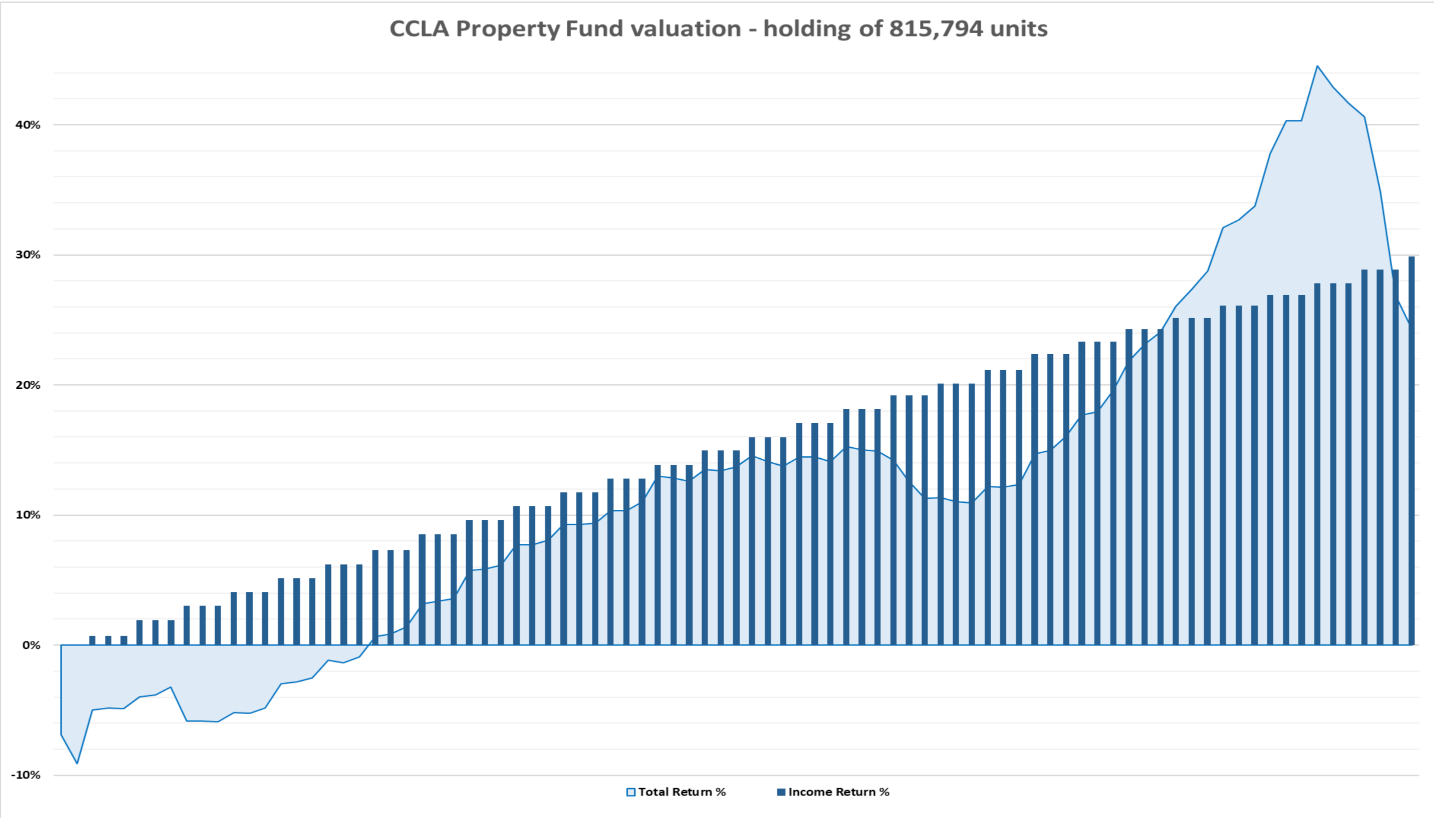
7.14. This benefit to the revenue budget is demonstrated in Table 4, using cash balances and average returns at 31 December 2022. It should be noted however that this is a snapshot at a particular point in time and balances and returns do not remain constant over the course of a year.

Table 4: Estimated annual income returns

	Cash balance at 31/12/2022 £m	**Weighted average return %**	**Estimated annual income return £**
Short-term cash investments	7.5	1.8%	135,000
Investment targeting higher yields	2.5	3.7%	92,500
Total	**10.0**	**2.3%**	**227,500**

7.15. The performance of this investment and its suitability in meeting the PCC's investment objectives will be monitored regularly and discussed with Arlingclose.

7.16. The cumulative total return from the PCC's investment in the pooled property fund since purchase is shown in the graph below. This highlights that despite volatility in the capital value of the funds over 2022, these pooled funds have delivered strong and steady income returns and a positive capital increase to date.



Investment limits

7.17. The maximum that will be lent to any one organisation (other than the UK Government) will be £5m. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers as shown in Table 5.

Table 5: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£5m each
UK Central Government	unlimited
Any group of pooled funds under the same management	£12.5m per manager

Approved Counterparties

7.18. The PCC may invest its surplus funds with any of the counterparty types in Table 6, subject to the limits shown.

Table 6: Sector and counterparty limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	30 years	Unlimited	n/a
Local authorities & other government entities	25 years	£5m	Unlimited
Secured investments *	25 years	£5m	Unlimited
Banks (unsecured) *	13 months	£3m	Unlimited
Building societies (unsecured) *	13 months	£3m	£5m
Registered providers (unsecured) *	5 years	£3m	£5m
Money market funds *	n/a	£5m	Unlimited
Strategic pooled funds	n/a	£5m	£12.5m
Real estate investment trusts	n/a	£3m	£5m
Other investments *	5 years	£3m	£5m

This table must be read in conjunction with the notes below:

*** Minimum credit rating**

7.19. Treasury investments in the sectors marked with an asterisk 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 known factors including external advice will be taken into account.

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

Banks and building societies (unsecured)

7.21. Accounts and 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.

7.22. The PCC may incur operational exposures, for example though current accounts, 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, and balances will therefore be kept low. The PCC's operational bank account is with National Westminster[12] and aims to keep the overnight balances held in current accounts positive, and as close to zero as possible. 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.

Registered providers (unsecured)

7.23. Loans and bonds issued by, guaranteed by or secured on the assets of 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 for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

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[12] A+ (Fitch), A1 (Moodys) and A (S&P) ratings – November 2022

Markets in Financial Instruments Directive

7.24. The annual variations in the PCC's cashflows mean that there are times that the balance will fall below £10m, which means that some financial institutions (including the PCC's treasury advisors Arlingclose) will not accept it as a professional client. Where it can act as a professional investor, providers of financial services, including advisers, banks, brokers and fund managers, will allow the PCC access to a greater range of services but without the greater regulatory protections afforded to individuals and smaller companies. The impact of its advisor having to treat the PCC as a retail investor, is highlighted below for the relevant types of investments.

7.25. The retail advice provided by the PCC's treasury advisor (Arlingclose) will not extend to 'designated investments', which are outlined below. Through the treasury management service supplied by Hampshire County Council, the PCC will have access to information on appropriate options for these types of investments, which are shared amongst all partners. The CFO will agree suitable investment counterparties, based on this information for the following sectors.

Government

7.26. Loans, 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 30 years.

Secured investments

7.27. 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.

Money market funds

7.28. 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.

Strategic pooled funds

7.29. Shares or units in diversified investment vehicles consisting of bond, equity and property investments. These funds offer enhanced returns over the longer term but are more volatile in the short term and allow the PCC to diversify into asset classes other than cash without the need to own and manage the underlying investments. This sector also includes cash plus funds which are also a type of pooled fund, but are used for short-term funds, with a lower risk appetite. Because strategic pooled 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.

Real estate investment trusts (REITs)

7.30. Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments

7.31. This category covers treasury investments not listed above, for example certificates of deposit (CDs), unsecured corporate bonds and company loans. Bank issued CDs and unsecured bonds will be subject to bail-in risk whereas non-bank companies will not but can become insolvent placing the PCC's investment at risk.

Risk assessment and credit ratings

7.32. Short and long-term credit ratings from the three main providers (Fitch Ratings, Moody's and Standard and Poor's) are obtained and monitored by the PCC's treasury advisers, who will notify changes in ratings as they occur. 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.

7.33. 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.

Other Information on the security of investments

7.34. 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 adviser. 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.

7.35. 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, via the Debt Management Office, or invested in government treasury bills for example, or with other local authorities. This will likely lead to investment returns falling but will protect the principal sum invested.

Liquidity management

7.36. The PCC has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historical cash flows are analysed in addition to significant future cash movements, such as payroll, grant income and council tax precept. Limits on long-term investments are set by reference to the PCC's medium term financial position (summarised in Table 1) and forecast short-term balances. The Chief Finance Officer will continue to review cashflows and overall reserves and balances throughout the financial year.

7.37. The PCC will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider, except in cases of extreme market stress whereby the PCC will be able to invest all of its liquid cash in one provider only, being the Debt Management Office (DMO).

8. Treasury Management Prudential Indicators

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

Interest rate exposures

8.2. The following indicator shows the sensitivity of the PCC's current investments and borrowing to a change in interest rates. Fixed rate investments maturing during the year are assumed to be variable for the remainder of the year.

Table 7: Interest rate risk indicator

	31 December 2022 £m	Impact of +/-1% interest rate change £m
Sums subject to variable interest rates		
Investment	7.5	+/- £0.8m
Borrowing *	0.0	+/- £0.0m

* The Commissioner currently has fixed rate borrowing and also no re-financing of maturing debt is planned, therefore any change in interest rates will have a nil effect.

Maturity structure of borrowing

8.3. 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:

Table 8: Maturity Structure of Borrowing

	Upper	Lower
Under 12 months	65%	0%
12 months and within 24 months	35%	0%
24 months and within 5 years	35%	0%
5 years and within 10 years	35%	0%
10 years and within 20 years	65%	0%
20 years and within 30 years	65%	0%
30 years and above	100%	0%

8.4. 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.

Principal sums invested for periods longer than a year

8.5. 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 limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 9: Price risk indicator

	2023/24	2024/25	2025/26	2026/27
Limit on principal invested beyond a year	£5m	£5m	£5m	£5m

9. Prudential Indicators - Borrowing

Gross Debt and the Capital Financing Requirement

9.1. 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 and is shown in Table 10.

Table 10: Gross Debt and the Capital Financing Requirement

	31/03/23 Revised £m	31/03/24 Estimate £m	31/03/25 Estimate £m	31/03/26 Estimate £m
CFR	**53.5**	**78.9**	**121.2**	**136.9**
Debt				
Borrowing	32.5	60.1	105.1	125.1
Leases	2.0	1.7	1.6	1.5
Total Debt	**34.5**	**61.8**	**106.7**	**126.6**

9.2. Total debt is expected to remain below the CFR during the forecast period. External debt is expected to remain below the CFR because of the PCC's borrowing strategy, whereby it has used internal borrowing (the use of internal cash balances) to fund capital expenditure in place of borrowing money from external sources.

Affordable Borrowing Limit

9.3. The PCC is legally obliged to set an Authorised Limit for the maximum affordable amount of external debt. In line with statutory guidance, a lower 'Operational Boundary' is also set as a warning level should debt approach the limit. The Operational Boundary is based on the PCC's estimate of the 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 and cash flow requirements, and is a key management tool for in-year monitoring.

Table 11: Affordable Borrowing Limits

	2022/23 Revised £m	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**
Authorised Limit:				
Borrowing	73.5	98.9	141.2	162.8
Leases and other long-term liabilities	7.0	6.7	6.6	6.5
Authorised Limit	**80.5**	**105.6**	**147.8**	**169.3**
Operational boundary:				
Borrowing	63.5	88.9	131.2	152.8
Leases and other long-term liabilities	7.0	6.7	6.6	6.5
Operational Boundary	**70.5**	**95.6**	**137.8**	**159.3**

10. Related Matters

10.1. The CIPFA Code requires the PCC to include the following in its TMSS.

Policy on Use of Financial Derivatives

10.2. 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.

Markets in Financial Instruments Directive

10.3. The PCC has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and smaller companies. Given the size and range of the PCC's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

11. Financial implications

11.1. The budget for investment income in 2023/24 is £0.1m, whilst the budget for debt interest paid in 2023/24 is £1.1, which is based on the expected fixed interest costs of the current debt portfolio. If actual levels of investments and borrowing, or actual interest rates, differ from that which is forecast, performance against budget will be correspondingly different.

12. Other Options Considered

12.1. The PCC could elect to bring all treasury management activity in-house. This option has been rejected as the arrangement with Hampshire County Council's Investments and Borrowing team provides significant resilience and economies of scale.

12.2. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer 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 listed in Table 14.

Table 14: Alternative strategies and their implications

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

Table 14: Alternative strategies and their implications

Alternative	Impact on income and expenditure	Impact on risk management
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

Appendix 1 - Arlingclose Economic and Interest Rate Forecast December 2022

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 remain 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, with a further 50bp rise in December, 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%.

- 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.

The table below shows Arlingclose's current interest rates forecasts:

	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%

Appendix 2 - Existing Investment & Debt Portfolio Position at 31 December 2022

Treasury investment position

Investments	30/09/2022 Balance £m	Net movement £m	31/12/2022 Balance £m	31/12/2022 Income return %	31/12/2022 Weighted average maturity years
Short term investments					
Banks and building societies:					
- Unsecured	(3.7)	6.8	3.1	0.8%	0.07
Money Market Funds	16.3	(13.9)	2.4	3.1%	0.00
Government:					
- DMO	3.0	(2.0)	1.0	1.8%	0.02
- UK Treasury Bills	1.0	0.0	1.0	2.0%	0.02
	16.6	**(9.1)**	**7.5**	**1.8%**	**0.03**
High yield investments					
Pooled funds:					
- Pooled property*	2.5	0.0	2.5	3.7%	N/A
	2.5	**0.0**	**2.5**	**3.7%**	**N/A**
TOTAL INVESTMENTS	**19.1**	**(9.1)**	**10.0**	**2.3%**	**0.03**

*The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 December 2022 based on the market value of investments 12 months earlier.

Treasury management position

	31/12/2022 Balance £m	31/12/2022 Rate %
External Borrowing	25.5	3.5%
Investments	(10.0)	2.3%
Net Debt	**15.5**	

Appendix C – Minimum Revenue Provision (MRP) policy statement

Background

The organisation is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

The Local Government Act 2003[13] requires the organisation to have regard to the Ministry of Housing, Communities and Local Government's Guidance (MCHLG) on Minimum Revenue Provision ("the Guidance"); most recently issued in February 2018. The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financing is commensurate with the period over which the capital expenditure provides benefits.

MHCLG regulations require the Strategic Executive Board (SEB) to approve an MRP statement each year. A variety of options are provided to authorities, so long as there is a prudent provision.

In December 2021 CIPFA published updated versions of both The Prudential Code and the Treasury Management in the Public Services and the only significant change, in relation to MRP, is the new requirement for a local authority to provide a prudent MRP on its commercial borrowing, which is sometimes used for forward lending to their local authority trading companies (LATCs). This does not currently apply to the Hertfordshire Commissioner's borrowing.

What is a Minimum Revenue Provision (MRP)?

The England, Northern Ireland and Wales capital finance regulations and associated statutory guidance[14] place a duty on local authorities to charge to the revenue account a minimum revenue provision (MRP) that is deemed to be prudent. The Minimum Revenue Provision is a charge that Councils which are not debt free are required to make in their accounts for the repayment of debt (as measured by the underlying need to borrow, rather than actual debt). The underlying debt is needed to

[13] Section 21(1A) of the *Local Government Act 2003*
[14] Statutory Instrument 2008 No. 414, Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008. Statutory guidance on minimum revenue provision guidance issued by the secretary of state in 2018 under Section 21(1A) of the Local Government Act 2003.

finance the capital programme. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It is therefore prudent to charge an amount for the repayment of debt over the life of the asset or some similar proxy figure, allowing borrowing to be matched to asset life. Setting aside an amount for the repayment of debt in this manner would then allow for future borrowing to be taken out to finance the asset when it needs replacing at no incremental cost. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and is now determined by Guidance.

MCHLG Options

The guidance provides four ready-made options for calculating the MRP. These are likely to fulfil most scenarios. However, the guidance does allow the use of an alternative approach if an authority can demonstrate that it is consistent with the statutory duty to make a prudent provision.

There are restrictions on the use of options one and two (they can only be used for supported borrowing), and option three – based on asset life – has proved the most popular method in practice. Local authorities are required to have their MRP policies approved by full council or equivalent prior to the start of the financial year.

The statutory guidance on the minimum revenue provision issued by the former MHCLG in February 2018 made some key changes to the way MRP is calculated, these included:

- disallowing a nil MRP charge to a revenue account, except where the CFR is nil or negative or previous years' overpayment(s) are being used to offset the current year's charge;
- clarity that the MRP charge to a revenue cannot be negative;
- disallowing the charge for MRP in respect of investment properties to be linked to
- depreciation, since these assets are not depreciated;
- confirmation that a change in MRP policy cannot be applied retrospectively and therefore cannot give rise to an 'overpayment' in relation to previous years;
- introducing a maximum useful life of 50 years for MRP purposes, except where a longer life is supported by an opinion from a suitably qualified professional adviser or by the term of a lease or PFI contract; and

- requirement to separately disclose in-year and cumulative overpayments (i.e. amounts in excess of the prudent minimum) that can be used to reduce the charge in later years.

The regulations set out four alternative options for making a prudent provision and it is necessary that the organisation adopts one of these when making MRP. Each of the four options is set out below:

Options 1 (Regulatory method) and **Option 2** (CFR method) are essentially the same as the 4% reducing balance approach and may only be used in relation to capital expenditure incurred before 1 April 2008. So

Options 3 (Asset Life method) and **Option 4** (Depreciation method) are both broadly based upon making MRP in line with the expected life of the asset. The Asset Life Method (Option 3) makes MRP over the asset life in either equal instalments or using an annuity approach. It provides a steady and predictable funding requirement at the point the asset enters service and is the method that needs to be used for capitalised expenditure and expenditure which is capital in accordance with regulations (e.g. software licenses).

Whereas Option 4 makes MRP in accordance with depreciation rules. Since the organisation’s depreciation policy is to use the straight-line method of depreciation, initially MRP under options 3 & 4 would be identical. However, in the longer-term Option 4 is potentially a less predictable approach than Option 3, as the level of MRP may be accelerated because of asset revaluations, which in turn will lead to accelerated funding pressures on the revenue budget. In addition, this option requires the establishment of a notional revenue provision and the consideration of residual values in the MRP calculation but provides no additional benefits over Option 3. Both these options result in the organisation making MRP on new assets only after they enter service in line with the current budget assumptions.

Change in methodology

Although the current equal instalments methodology provides certainty and uniformity in the level of charges to the revenue account, it does not however recognise the time value of money i.e. the effect of inflation. For example, an MRP charge of £100 in 50 years’ time would be equivalent to £37.15 today and conversely

£100 today would be worth £269.16 in the future[15]. Therefore, to address this anomaly, it is recommended that moving forward the Annuity approach of Option 3 is adopted.

A key consideration when using this methodology is determining the annuity rate to be used and fortunately the treasury advisors (Arlingclose) provide their clients with a forecast each year (see Appendix 1.2), which are broadly aligned to the current PWLB certainty rates and so these will be used in the first instance. In the absence of this information, then a proxy rate of 2% will be used (the current Bank of England inflation target) as this provides certainty in high inflation environment that is currently being experienced (see Appendix 1.1)[16] and mitigates any potential impact from the 'base effect'[17].

Application

All eligible capital expenditure, incurred prior to 31 March 2022, continues to be subject to MRP under the Option 3 (Asset Life) method, and thereafter that the Option 3 (Annuity) approach is adopted i.e., with effect from 1 April 2022.

Under this policy, the total amount of MRP paid remains the same over the total life of the assets. However, they result is a reduction to the amount charged to revenue in the short to medium term, as illustrated in the Appendix 2 and in accordance with the regulations this new methodology will not be applied retrospectively.

Under both approaches capital expenditure financed by borrowing will not incur an MRP charge until the year after the capital expenditure occurs. Therefore, capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24. The current MHCLG guidance permits that, for significant assets, MRP may be delayed until the asset becomes operational; for example, the HQ redevelopment project and land purchased for the construction of an asset for a specific service use.

MRP on expenditure not related to fixed assets, but which has been capitalised by regulation or direction, will be charged over a period not exceeding 20 years, in accordance with the Guidance.

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[15] 2% inflation assumption
[16] CPI 10.7% - November 2022
[17] https://blog.ons.gov.uk/2021/05/19/beware-base-effects/

The useful life on assets will normally be charged over a period not exceeding 50 years, except where the organisation has an opinion, from an appropriately qualified professional adviser[18], that an asset will deliver service functionality for more than 50 years[19]. MRP on purchases of freehold land will be charged over 50 years.

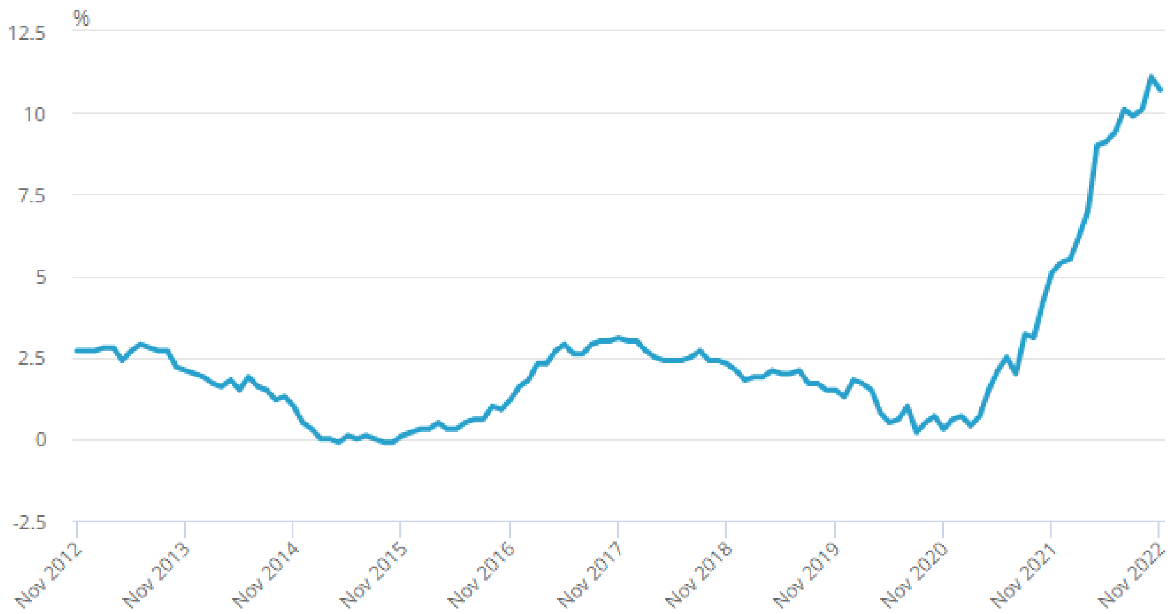
Recommendation

That the Police & Crime Commissioner approve the policy as set out.

[18] For example, an RICS qualified land and property valuer
[19] Para. 42 of Statutory Guidance on MRP

Appendix 1 – Annuity information

1. Historical CPI



Source: Office for National Statistics – Consumer price inflation

2. Arlingclose rate forecasts[20]

Forecast annuity rates

These rates can be used for annuity MRP budgets for 2023/24 and future years. Use the correct row for the year of capital expenditure and the correct column for the asset life.

Years	5	7	10	12	15	20	25	30	35	40	45	50
2022/23	3.80	3.85	3.85	3.90	3.90	4.05	4.20	4.30	4.30	4.30	4.25	4.20
2023/24	5.00	4.85	4.85	4.70	4.85	5.00	5.05	5.10	5.10	5.05	5.00	4.90
2024/25	5.05	4.95	4.80	4.75	4.95	5.10	5.10	5.10	5.15	5.05	5.00	4.90
2025/26	5.15	4.90	4.85	4.75	5.05	5.15	5.15	5.15	5.15	5.10	5.00	4.85
2026/27	4.90	4.60	4.75	4.80	5.05	5.15	5.15	5.15	5.15	5.05	5.00	4.80
2027/28	4.70	4.70	4.90	4.90	5.15	5.20	5.20	5.15	5.15	5.05	4.95	4.80

The rates for 2022/23 are the average PWLB certainty rate so far this financial year plus an assumption that today's rate remains unchanged for the rest of the year. Rates for future years are based on the current PWLB certainty rate adjusted for the market forecast change in gilt yields.

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Appendix 2 – Illustration of the Equal instalment versus the Annuity methods

Example 1

Principal £'000	**50,000**
Rate	**5.0%**
Asset Life	**50**

Year	**Annuity**	**Equal Instalment**	**(Decrease) /Increase**
1	239	1,000	(761)
2	251	1,000	(749)
3	263	1,000	(737)
4	276	1,000	(724)
5	290	1,000	(710)
6	305	1,000	(695)
7	320	1,000	(680)
8	336	1,000	(664)
9	353	1,000	(647)
10	371	1,000	(629)
11	389	1,000	(611)
12	408	1,000	(592)
13	429	1,000	(571)
14	450	1,000	(550)
15	473	1,000	(527)
16	497	1,000	(503)
17	521	1,000	(479)
18	547	1,000	(453)
19	575	1,000	(425)
20	604	1,000	(396)
21	634	1,000	(366)
22	665	1,000	(335)
23	699	1,000	(301)
24	734	1,000	(266)
25	770	1,000	(230)
26	809	1,000	(191)
27	849	1,000	(151)
28	892	1,000	(108)
29	936	1,000	(64)
30	983	1,000	(17)
31	1,032	1,000	32
32	1,084	1,000	84
33	1,138	1,000	138
34	1,195	1,000	195
35	1,255	1,000	255
36	1,317	1,000	317
37	1,383	1,000	383
38	1,452	1,000	452
39	1,525	1,000	525
40	1,601	1,000	601
41	1,681	1,000	681
42	1,765	1,000	765
43	1,854	1,000	854
44	1,946	1,000	946
45	2,044	1,000	1,044
46	2,146	1,000	1,146
47	2,253	1,000	1,253
48	2,366	1,000	1,366
49	2,484	1,000	1,484
50	2,608	1,000	1,608
Total	**50,000**	**50,000**	**0**

Example 2

Principal £'000	**10,000**
Rate	**5.0%**
Asset Life	**30**

Year	**Annuity**	**Equal Instalment**	**(Decrease)/ Increase**
1	151	333	(183)
2	158	333	(175)
3	166	333	(167)
4	174	333	(159)
5	183	333	(150)
6	192	333	(141)
7	202	333	(132)
8	212	333	(122)
9	222	333	(111)
10	233	333	(100)
11	245	333	(88)
12	257	333	(76)
13	270	333	(63)
14	284	333	(50)
15	298	333	(35)
16	313	333	(20)
17	329	333	(5)
18	345	333	12
19	362	333	29
20	380	333	47
21	399	333	66
22	419	333	86
23	440	333	107
24	462	333	129
25	485	333	152
26	510	333	176
27	535	333	202
28	562	333	229
29	590	333	257
30	620	333	286
Total	**10,000**	**10,000**	**0**

Appendix D - Capital Strategy Report 2023/24

Introduction

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code (2021) requires the production of a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with desired outcomes and take account of good stewardship, value for money, prudence, sustainability, and affordability.

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.

Decisions made this year on capital and treasury management will have financial consequences for the Organisation 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.

Objectives

The key objectives of the Capital Strategy are to:

- Provide a framework that requires new capital expenditure to be robustly evaluated, ensuring that capital investment delivers value for money and is made in accordance with the Hertfordshire corporate, financial and asset management strategies, matching their visions, values and priorities.
- Set out how Hertfordshire identifies, prioritises, delivers and manages capital programmes and projects. This includes outlining the governance framework from initiation to post project review.
- Ensure that the whole life cost of capital expenditure is evaluated, including borrowing, maintenance and disposal costs.
- Ensure that all capital expenditure and related borrowing cash flows are affordable, prudent and sustainable.
- Identify the resources available for capital investment over the planning period and any restrictions on borrowing or funding.

Capital Expenditure and Financing

Capital expenditure is where the Organisation spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

In 2023/24, the Organisation is planning capital expenditure of £35.5m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget *	2025/26 budget
TOTAL £m	14.5	17.5	35.5	53.7	20.0

The main capital projects include the HQ redevelopment, joint firing range and public order training facilities. In accordance with the Prudential Code, the Organisation will not incur capital expenditure on investments.

Governance: Service leads submit bids annually to include projects in the organisation's capital programme. Bids are collated by corporate finance who calculate the financing cost. All bids are appraised based on a comparison of strategic priorities against financing costs and makes recommendations to the Strategic Executive Board (SEB).

The capital project proposals are prioritised with reference to a business case and considered against the following factors:

- Legal requirements – unavoidable projects i.e., mandated, statutory or contractually obliged,
- Strategic alignment – alignment to the Police and Crime Plan, the Force Management Statement (FMS) and the Constabulary's Strategic Assessment,
- Interdependencies – with other projects and or strategies and plans,
- Risk – of not doing the project and whether this is within tolerable levels, Cashable savings – the return on investment (ROI) measured against the initial outlay, where this is appropriate to consider

- Deferability / complexity –The level of resource commitment, internally and externally and time critical deadlines,
- Non-cashable benefits – other benefits such as service improvements and efficiency / productivity benefits
- Mitigation – future cost avoidance

The final capital programme is then presented to the SEB each year for approval.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Organisation's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2021/22 actual £m	**2022/23 forecast £m**	**2023/24 budget £m**	**2024/25 budget £m**	**2025/26 budget £m**
External sources	0.2	0.0	0.0	0.0	0.0
Capital receipts	5.4	2.0	7.9	8.7	0.0
Revenue resources	0.2	0.8	0.0	0.0	0.0
Debt	8.7	14.7	27.6	45.0	20.0
TOTAL	**14.5**	**17.5**	**35.5**	**53.7**	**20.0**

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 a minimum revenue provision (MRP).

Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of prior years' debt finance in £ millions

	2021/22 actual £m	2022/23 forecast £m	2023/24 budget £m	2024/25 budget £m	2025/26 budget £m
Minimum revenue provision (MRP)	4.7	1.1	2.2	2.8	4.3
Capital receipts	5.4	2.0	7.9	2.8	0.0
TOTAL	**10.1**	**3.1**	**10.1**	**5.6**	**4.3**

The Organisation'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 £29.9m during 2023/24. Based on the above figures for expenditure and financing, the Organisation's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget *	31.3.2026 budget
TOTAL CFR £m	**40.1**	**53.5**	**78.9**	**121.2**	**136.9**

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.

The Organisation plans to receive £13.5m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts receivable in £ millions

	2021/22 actual £m	**2022/23 forecast £m**	**2023/24 budget £m**	**2024/25 budget £m**	**2025/26 budget £m**
Asset sales	0.0	0.0	13.5	0.0	0.0
Loans etc repaid	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	**13.5**	0.0	0.0

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Organisation'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 Organisation is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, the Organisation currently has £25.5m borrowing at an average interest rate of 3.93% and £7.5m treasury investments at an average rate of 1.9%.

Borrowing strategy: The Organisation's main objectives when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Organisation 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.

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

Projected levels of the Organisation's total outstanding debt (which comprises borrowing, PFI liabilities, leases and transferred debt) are shown below, compared with the capital financing requirement (see above).

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

	31.3.2022 actual £m	31.3.2023 forecast £m	31.3.2024 budget £m	31.3.2025 budget £m	31.3.2026 budget £m
Debt (incl. PFI & leases)	25.5	32.5	52.5	98.5	114.5
Capital Financing Requirement	40.1	53.5	78.9	121.2	136.9

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

Liability benchmark: To compare the Organisation'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 £5m at each year-end. This benchmark is currently £5.9m and is forecast to fall to £5.7m over the next three years.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2022 actual £m	31.3.2023 forecast £m	31.3.2024 budget £m	31.3.2025 budget £m	31.3.2026 budget £m
Outstanding borrowing	40.1	53.5	78.9	121.2	136.9
Liability benchmark	17.8	32.7	60.1	102.4	118.1

The table shows that the Organisation expects to remain borrowed above its liability benchmark.

Affordable borrowing limit: The Organisation is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. 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 in £m

	2022/23 limit £m	2023/24 limit £m	2024/25 limit £m	2025/26 limit £m
Authorised limit – borrowing	73.5	98.9	141.2	162.8
Authorised limit – PFI and leases	7.0	6.7	6.6	6.5
Authorised limit – total external debt	80.5	105.6	147.8	169.3
Operational boundary – borrowing	63.5	88.9	131.2	152.8
Operational boundary – PFI and leases	7.0	6.7	6.6	6.5
Operational boundary – total external debt	70.5	95.6	137.8	159.3

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.

The Organisation'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 terms 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 Organisation may request its money back at short notice.

Table 9: Treasury management investments in £millions

	31.3.2022 actual £m	31.3.2023 forecast £m	31.3.2024 budget £m	31.3.2025 budget £m	31.3.2026 budget £m
Near-term investments	19.8	18.3	16.3	16.3	16.3
Longer-term investments	2.5	2.5	2.5	2.5	2.5
TOTAL	**22.3**	**20.8**	**18.8**	**18.8**	**18.8**

Risk management: The effective management and control of risk are prime objectives of the Organisation's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to Hampshire County Council officers[21], who must act in line with the treasury management strategy approved by the PCC at the Decision-Making Meeting (DMM), with quarterly reports on treasury management activity being presented to DMM on a quarterly basis. The joint audit committee is responsible for scrutinising treasury management decisions.

<u>**Commercial Activities**</u>

With central government financial support for local public services declining, in 2015 the Organisation invested £2.5m in commercial property purely or mainly for financial gain. Total commercial investments are currently valued at £2.4m with the largest being the Church Charity Local Organisation (CCLA) Local Organisation Property Fund providing a net return after all costs of 4%.

Risk management: With financial return being the main objective, the Organisation accepts higher risk on commercial investment than with treasury investments. The

[21] The Chief Finance Officer retains overall responsibility

principal risk exposures include expiry of the IFRS9 statutory override[22], a reduction in dividends received and a fall in capital value. These risks are managed by regular meetings with the fund manager and monthly monitoring of performance. In order that commercial investments remain proportionate to the size of the organisation, and to ensure that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services, these are subject to an overall maximum investment limit of £5m.

Governance: Decisions on commercial investments are made by solely by the Commissioner in line with the criteria and limits set out in the investment strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme. Both the Monitoring Officer and Chief Finance Officer are responsible for ensuring that adequate due diligence is carried out before investment is made and where deemed appropriate independent and expert advice and scrutiny will be sought.

Table 10: Prudential indicator: Net income from commercial and service investments to net revenue stream

	2021/22 actual	**2022/23 forecast**	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**
Total net income from service and commercial investments (£m)	0.1	0.1	0.1	0.1	0.1
Proportion of net revenue stream	<0.1%	<0.1%	<0.1%	<0.1%	<0.1%

Liabilities

In addition to debt of £25.5m detailed above, the Organisation is committed to making future payments to cover its Local Government (LGPS) pension fund deficit (valued at £107.9m – 2021/22).

22 Section 21 of the Local Government Act 2003 override of International Financial Reporting Standard 9 (IFRS 9)

Governance: Decisions on incurring new discretional liabilities are taken by either the PCC or Chief Constable in consultation with their respective Chief Finance Officer. The risk of liabilities crystallising and requiring payment is monitored by corporate finance and reported if new liabilities are deemed material i.e., exceeding £0.5m, in which case they are reported to the SEB for approval/notification as appropriate.

Revenue Budget Implications

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, business rates and general government grants.

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

	2021/22 actual	**2022/23 forecast**	**2023/24 budget**	**2024/25 budget ***	**2025/26 budget**
Financing costs (£m)	1.9	2.0	3.1	4.3	7.3
Proportion of net revenue stream	0.8%	0.8%	1.2%	1.7%	2.7%

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 50 years into the future. The Chief Finance Officer is satisfied that the proposed capital programme is prudent, affordable, and sustainable because the level of capital financing is expected to remain below 5% of net revenue expenditure.

Knowledge and Skills

The Organisation employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

Where Organisation staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Organisation currently employs Hampshire County Council as treasury managers and Arlingclose

Limited as treasury advisers. This approach is more cost effective than employing such staff directly and ensures that the Organisation has access to knowledge and skills commensurate with its risk appetite.