

'Safer Together'

Medium Term Financial Strategy 2014-15 to 2017-18

Annual Budget 2014-15



Devon & Cornwall Police
Building safer communities together



PCC
Office of the Police
and Crime Commissioner
Devon and Cornwall

The Medium Term Financial Strategy : 2014-15 to 2017-18

	Page
Police and Crime Plan Priorities	1 - 3
Revenue Strategy	
Summary of Funding Changes and Council Tax *	4
Main Components of the Budget *	5
Revenue Budget Movements	6 - 7
Key Budget Headings	8 - 9
Operational Income	10
Staffing Analysis *	11
Specific Grants *	11
Balances, Reserves and Provisions	
Balances, Reserves and Provisions: Summary *	12
Sensitivity of Budget Assumptions & Resilience	13
Commissioning Budget 2014-15	
Commissioning Budget Information	14
Council Tax	
Council Tax Information and Precept *	15
Capital Strategy	
Overview of the four Year Capital Programme	16 - 23
Prudential Indicators	24
Impact of Budget Decisions	
Balances, Reserves and Provisions: Details	25 - 29
VFM statement	
VFM statement	30 - 33
Treasury Management Strategy	
Treasury Management Strategy *	34 - 58
Available separately on request	
Police and Crime Commissioner's Report to the Police and Crime Panel	
Treasurers Report to Police and Crime Commissioner	

* All documents indicated were presented to the Police and Crime Panel on the 8 February 2014.

At that meeting, having considered the evidence presented to them, the Panel agreed the 1.99% increase in the precept proposed.

Following this approval, the Police and Crime Commissioner decided to increase the precept by 1.99%. This is recorded as decision number: 23 – 10/2/2014 in the Office of the Police and Crime Commissioner decision log.

Police and Crime Plan 2014-2017

Relationship between the Medium Term Financial Strategy and the Police and Crime Plan

The Police and Crime Commissioner (PCC) has a statutory duty to produce a Police and Crime Plan. The Plan must set out the priorities for policing and community safety in Devon, Cornwall and the Isles of Scilly along with the resources that will be provided to the Chief Constable and others in order to meet those objectives. The Plan must be kept under regular review to ensure it remains appropriate to the needs of local people, the police and partners. The Plan is subject to scrutiny by the Police and Crime Panel.

The Police and Crime Plan can be found at <http://www.devonandcornwall&pcc.gov.uk/Document&Library/Police&and&Crime&Plan>

The Medium Term Financial Strategy is created to support delivery of the Police and Crime Plan. It sets out both the funding available and the forecast spending required to deliver the Plan priorities.

Police and Crime Plan

The Police and Crime Plan has been refreshed to provide a sharper focus and clearer action and delivery mechanisms. The new Plan reflects the experience gained during the first year of operation, takes account of the feedback received throughout the year and addresses emerging threats and challenges.

The overarching vision of the Police and Crime Plan remains to make people safer and reduce crime. This is placed at the forefront of an ambitious programme of work based upon strengthening partnerships and improving joint working arrangements whilst addressing the need to make substantial financial savings. The Plan also acknowledges the significant changes that will be seen in coming years, such as the responsibility upon the PCC for providing victims services, and the major reforms to offender rehabilitation arrangements.

The Plan provides a greater focus on priorities and activities. It clearly sets out what actions the PCC, Chief Constable and partners are expected to take and how they will be held to account.

The Police and Crime Plan priorities for 2014-2017

To make our area a safer place to live, work and visit & reducing the likelihood that people will become victims of crime.

- Keep police officer numbers above 3000.
- Keep crime levels low by focusing on prevention and on reducing reoffending.
- Support crime reduction activities by commissioning services through CSPs and directly from Youth Offending Teams and Sexual Assault Referral Centres as well as by providing funds directly through my PCC Small Grants Scheme.

- Require a continued focus by the police on the key threats identified in the Peninsula Strategic Assessment, in particular to work closely with partners to tackle domestic abuse and sexual assault, to ensure that vulnerable adults and children are supported through effective safeguarding mechanisms and to tackle drug and alcohol related crime.
- Respond to the needs of the community by reviewing the 101 non-emergency service in 2014 and to then drive forward any required improvements to better meet the needs of callers.

To reduce the crime and harm caused by the misuse of alcohol

- Champion a more responsible approach to alcohol across the peninsula and seek a shift in cultural attitudes towards crime and antisocial behaviour that is fuelled by excessive drinking.
- Campaign for a more responsible approach from retailers to help reduce the harm and crime caused by alcohol.
- Raise awareness and improve education about the harm caused by alcohol, in particular to raise awareness amongst young people and parents.
- Highlight and promote best practice in tackling alcohol related crime and antisocial behavior.

To make every penny count in protecting policing for the long term. We need to drive for further efficiency, work to secure more central funding and actively explore all avenues to deliver the significant savings we require from 2017/18 to sustain our services

- Work with the Chief Constable to develop a vision for how we will deliver a balanced budget by the end of 2017/18 with £12m of additional annual savings.
- Publish a Financial Roadmap in December 2014 to provide a clear direction for future years which will remove the structural deficit from 2017/18.
- Actively explore the scope for collaboration with Dorset Police through a potential Strategic Alliance.
- Carry out a full strategic review of the following issues to inform that Financial Roadmap.
- Campaign for a greater share of Proceeds of Crime Act funds to be allocated to police rather than be retained by central government.

To promote an effective criminal justice system for our area, delivering a high quality service for victims, witnesses and society

- Influence and shape the upcoming reforms to rehabilitation services to ensure they reflect local needs and strengthen efforts to keep our area safe.
- Advocate the importance of a victim focused CJS which delivers high quality services for victims and society, according to need and to champion the interests of all victims and witnesses.

- Campaign for greater action by partners on mental health to prevent people entering the criminal justice system unnecessarily.
- Support efforts to prevent reoffending by young people, by encouraging the appropriate use of non court actions and mechanisms like restorative justice for first time offenders.

To deliver a high quality victim support service across our area

- Provide a high quality, effective and improved service for all victims of crime which will be in place for April 2015 and monitor the performance of existing providers from April 2014.
- Drive forward implementation locally of the new National Victims Code.
- Fund wider services which provide support for victims through my commissioning process and directly through my funding of Sexual Assault Referral Centres and my PCC Small Grants Scheme.

To encourage and enable citizens and communities to play their part in tackling crime and making their communities safer

- Champion and enable greater involvement by citizens and communities to support policing and help keep their communities safe, including ways to prevent crime occurring.
- Support the development of active citizenry schemes and community projects by working to remove unnecessary barriers and red tape.
- Provide seed funding and support, when appropriate, to help initiatives get off the ground.
- Require the Chief Constable to review the scope and scale of volunteering in policing and examine the volume and range of volunteer roles and civic engagement opportunities and how to make the most of volunteering.

Delivery and accountability

The Police and Crime Plan will be delivered by the PCC with close co-operation from the Chief Constable and partners taken forward through shared action plans and joint projects.

Each priority will be delivered by a joint OPCC and Force delivery board reporting to the Joint Management Board or to the Performance and Accountability Board. Regular progress reports will be published on the OPCC website.

The Police and Crime Commissioner is required to report regularly to the Police and Crime Panel.

Summary of Funding Changes and Calculation of Council Tax Requirement

	2013-14 £000	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000
Council Tax Increase	2.00%	1.99%	2.00%	2.00%	2.00%
Gross Annual Expenditure	294,007	293,154	289,667	290,793	287,931
Appropriation to/(from) reserves	4,251	- 530	72	(6,301)	(8,221)
Gross Budget Requirement	298,258	292,624	289,739	284,492	279,710
Funding before Council Tax					
Formula Funding	(182,972)	(175,782)	(169,757)	(163,572)	(156,340)
Home Office Grants now included in formula funding	(1,604)	0	0	0	0
	(184,576)	(175,782)	(169,757)	(163,572)	(156,340)
Percentage change in formula funding		-4.8%	-3.4%	-3.6%	-4.4%
Council Tax Benefit Grant	(13,075)	0	0	0	0
Council Tax Freeze Grant 2011-12	(2,392)	0	0	0	0
Legacy Council Tax Grants	0	(15,461)	(15,461)	(15,461)	(15,461)
Other Central Government Grants	(1,618)	(2,342)	(3,607)	(2,385)	(2,385)
Total Central Government Funding	(201,661)	(193,585)	(188,825)	(181,418)	(174,186)
Percentage change in central government funding		-4.0%	-2.5%	-3.9%	-4.0%
Surplus on Council Tax Collection F	(845)	(1,079)	(300)	(200)	(200)
Other income	(6,504)	(5,791)	(6,134)	(6,022)	(6,039)
Total Funding before Council Tax	(209,010)	(200,455)	(195,259)	(187,640)	(180,425)
Council Tax Requirement	89,248	92,169	94,480	96,852	99,285

	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000
Gross Budget previous Year	298,258	292,624	289,739	284,492
Inflation	3,285	3,395	3,360	3,385
Pay Commitments	(382)	890	5,474	1,500
Non-Pay Commitments	2,292	535	374	480
Total Commitments	5,195	4,820	9,208	5,365
Revenue Costs Funded from Reserves	851	(4,292)	(710)	363
Changes in appropriations to funds and reserves	(4,781)	602	(6,373)	(1,920)
Changes in externally funded expenditure	542	1,265	(1,222)	0
	(3,388)	(2,425)	(8,305)	(1,557)
Gross Budget before Savings Requirement	300,065	295,019	290,642	288,300
Police Officers - turnover	(2,560)	(2,245)	(3,430)	(3,185)
Savings Plan 14-18 : Police officer reductions	(400)	(1,505)	(780)	(230)
Savings Plan 14-18 : Police staff reductions	(1,169)	(1,080)	(830)	0
Savings Plan 14-18 : Non pay savings	(3,312)	(450)	(600)	(85)
Savings Plan 14-18 : Unidentified Cuts	0	0	(510)	(5,090)
Total Savings Plan 14-18	(4,881)	(3,035)	(2,720)	(5,405)
Total Savings	(7,441)	(5,280)	(6,150)	(8,590)
Gross Budget Requirement	292,624	289,739	284,492	279,710
Deduct specific grant and other income	(8,133)	(9,741)	(8,407)	(8,424)
Net Budget Requirement	284,491	279,998	276,085	271,286

Main Components of the Budget

	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000
Chief Constable				
Force Budget Requirement	277,905	270,965	274,606	271,687
Office of Police and Crime Commissioner	1,802	1,825	1,849	1,873
Capital Financing				
Minimum Revenue Provision and interest payments	2,765	2,766	2,852	2,915
Interest Receipts	(325)	(392)	(545)	(678)
Support for collection of council tax	60	60	60	60
Commissioning and Partnership Working				
Commissioning Budget of the Police and Crime Commissioner	2,814	4,702	3,564	3,650
Net budget before contribution to/from Reserves	285,021	279,926	282,386	279,507
Contribution to/(from) Reserves	(530)	72	(6,301)	(8,221)
Total Budget	<u>284,491</u>	<u>279,998</u>	<u>276,085</u>	<u>271,286</u>

Revenue Budget Movements

	SR 2013	<- - - - - CSR 2014 - - - - ->		
	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000
Funding				
Police Grant	110,055	} 169,757	163,572	156,340
Formula Funding	65,727			
Legacy Council Tax Grants	15,461	15,461	15,461	15,461
Council Tax	92,169	94,480	96,852	99,285
Surplus on Collection Fund	1,079	300	200	200
Specific grant	2,342	3,607	2,385	2,385
Other Income	5,791	6,134	6,022	6,039
Total Funding	292,624	289,739	284,492	279,710
Council Tax Increase	1.99%	2.00%	2.00%	2.00%
Budget Requirement				
Base Budget Previous Year	298,258	292,624	289,739	284,492
External Funding Changes				
Gross expenditure and income adjustment	542	1,265	(1,222)	0
	542	1,265	(1,222)	0
Inflation				
Full-year effect pay awards	985	995	1,025	1,035
Provision for Pay and Price Increases	2,300	2,400	2,335	2,350
	3,285	3,395	3,360	3,385
Pay Commitments				
Increments	1,300	1,900	1,800	1,900
National Insurance (single state pension)	0	0	4,500	0
Change in LGPS Contribution Rate	(400)	0	0	0
Police Staff Pensions Actuarial Review	0	0	0	0
OPCC & Commissioning Growth Posts	295	0	0	0
Force Growth Posts	234	0	0	0
File Quality Assurance	160	(160)	0	0
Winsor 2 Changes	(1,330)	(450)	(426)	0
Rent & Housing Allowances / Competency Based Payments	(641)	(400)	(400)	(400)
	(382)	890	5,474	1,500
Non-Pay Commitments				
Interest Receipts	35	(67)	(153)	(133)
Interest Payments	15	1	86	63
Minimum Revenue Provision (based on planned capital expenditure)	16	0	0	0
Major Equipment Replacement	44	(184)	(144)	0
Support for council tax collection	38	0	0	0
Specials Recruitment	35	35	35	0
Home Office ICT charges	250	0	0	0
Partnership & Regional Initiatives	150	0	0	0
Forensic Medical Examiners Service	73	0	0	0
Injury Awards and Ill Health Retirements	360	0	0	0
Recruitment (13-14 trend)	106	0	0	0
Travel Costs (13-14 trend)	126	0	0	0
Job Evaluation	1,799	0	0	0
Other minor changes	95	0	0	0
Policing Plan - Cyber Crime	0	350	0	0
Policing Plan - Other Priorities / Initiatives	(850)	400	550	550
	2,292	535	374	480
Revenue Costs Funded from Reserves				
Core Programme revenue implementation costs	1,731	(3,343)	(245)	363
Job Evaluation revenue implementation costs	(779)	(1,337)	(120)	0
Additional Severance costs	0	0	0	0
Estates Development	(101)	388	(345)	0
Transition Fund	0	0	0	0
	851	(4,292)	(710)	363
Base Budget before Savings and Service Reviews	304,846	294,417	297,015	290,220

Revenue Budget Movements

	SR 2013	<----- CSR 2014 ----->		
	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000
Identified Budget Reductions and Savings				
Reduction in Police Officer Numbers ¹	(2,960)	(3,750)	(4,210)	(3,415)
Reduction in Police Staff Numbers ²	(1,169)	(1,080)	(830)	0
Non-Pay Budget Reductions ³	(3,312)	(450)	(600)	(85)
	<u>(7,441)</u>	<u>(5,280)</u>	<u>(5,640)</u>	<u>(3,500)</u>
Unidentified Budget Cuts ⁴	0	0	(510)	(5,090)
Total Net Savings	<u>(7,441)</u>	<u>(5,280)</u>	<u>(6,150)</u>	<u>(8,590)</u>
Changes in appropriations to funds and reserves ⁵				
Workforce Modernisation Reserve	(1,520)	1,337	120	0
Capital Financing Reserve	250	(250)	0	0
Estates Development Reserve	101	(388)	345	0
Programme & Projects Reserve	(1,731)	3,343	245	(363)
Revenue Smoothing Fund	(1,881)	(3,440)	(7,083)	(1,557)
	<u>(4,781)</u>	<u>602</u>	<u>(6,373)</u>	<u>(1,920)</u>
Gross Budget Requirement	<u>292,624</u>	<u>289,739</u>	<u>284,492</u>	<u>279,710</u>
External Income and Specific Grants	<u>(8,133)</u>	<u>(9,741)</u>	<u>(8,407)</u>	<u>(8,424)</u>
Net Budget Requirement	<u>284,491</u>	<u>279,998</u>	<u>276,085</u>	<u>271,286</u>
Savings Plan 2014-18				
<i>1. Reduction in Police Officer Numbers / Rank Profile / WFP Profile</i>				
Turnover	(2,560)	(2,245)	(3,430)	(3,185)
Reduction in Numbers		(505)	(780)	(230)
Further reduction in numbers	(400)	(1,000)		
<i>2. Reduction in Police Staff Numbers</i>				
Vacancy Disestablishment (Natural Wastage)	365			
PCSO Recruitment Profile	(850)			
PCSO Recruitment Profile further adjustment	(183)		0	0
Savings from Targeted Police Staff Reviews	(501)	(1,080)	(830)	
<i>3. Non-Pay Budget Reductions</i>				
ICT Budget Savings	(557)			
Vehicle / Travel Reductions	(97)			
National Aviation Service (NPAS)	(95)			
Estates Strategy	(390)	(200)	(200)	
Procurement - General	(300)			
ICT FM Contract	(150)	(250)	(400)	
Forensics	(258)			
Interpreters	(100)			
Equipment	(100)			
Major Operations Contingency	(420)			
Other Locally Managed Budgets (14-15 budget build)	(845)			(85)
Total Identified Savings	<u>(7,441)</u>	<u>(5,280)</u>	<u>(5,640)</u>	<u>(3,500)</u>
<i>4. Unidentified Budget Cuts</i>				
Further budget cuts to be identified			(510)	(5,090)
Total Savings Plan	<u>(7,441)</u>	<u>(5,280)</u>	<u>(6,150)</u>	<u>(8,590)</u>
5. Use of Reserves - See Detailed Analysis				
Workforce Modernisation Reserve	(1,457)	(120)	0	0
Capital Financing Reserve	500	250	250	250
Estates Development Reserve	43	(345)	0	0
Programme & Projects Reserve	(3,225)	118	363	0
	<u>(4,139)</u>	<u>(97)</u>	<u>613</u>	<u>250</u>
Revenue Smoothing Fund	3,609	169	(6,914)	(8,471)
Total Use of Reserves	<u>(530)</u>	<u>72</u>	<u>(6,301)</u>	<u>(8,221)</u>
Smoothing Fund Balance	26,574	26,743	19,829	11,358

Key Budget Headings 2014-15

Cost Type	Key Budgets (strategic tier 1)		Budget Metrics (Number or price)	2014-15 Budget £000
Police Officer costs	Police Officer pay and oncosts - Existing Posts	*	2,908	149,472
	Police Officer pay and oncosts - New Recruits	*	132	0
	Police Officer pay and oncosts - Allowances			6,176
	Police Officer pay and oncosts - operational overtime	**	8	3,286
Police Staff costs	PCSO pay, allowances and oncosts	*	360	11,048
	Police Staff pay, allowances and oncosts	*	1,763	58,826
	Turnover allowance & vacancy savings	*	-60	-1,500
	Police Staff overtime			767
Change	Severance costs			0
Training	Training			1,164
Operational	Major Operations including police officer overtime			1,000
Premises	Premises			12,368
Contract based	ICT FM Contract - ICT Costs			10,923
	Programme and Projects			4,483
	Forensics and Scientific Equipment			1,686
	Outsourced Services			2,950
Transport	Vehicles and Travel			2,491
	Fuel	***	£1.38	3,069
Legal	Legal			890
Contributions	Regional Collaboration and National Contributions			3,108
Pensions	Injury Awards and Ill Health Retirement	****	15	2,398
Other Costs	All other budget costs			10,370
Income	Specific Grants			-1,800
	Income			-5,270
Force Revenue Budget 2014-15				277,905

*FTE (Full Time Equivalent) **No. of Bank Holidays *** Price of Diesel per litre **** No. Of Ill Health Retirements

Key Budget Headings 2014-15

Cost Type	Key Budgets (strategic tier 1)	Budget Metrics (Number or price)	2014-15 Budget £000
Non-Operational Budgets	Office of the Police and Crime Commissioner		1,862
	Capital Financing and Treasury Management	0.6% return	2,440
	Commissioning and Partnership Working - Allocations		3,215
	Commissioning and Partnership Working - Management		141
	Commissioning and Partnership Working - Specific Grants		-542
	Contributions to / from Reserves		-530
Total Revenue Budget 2014-15			284,491

Medium Term Financial Strategy 2014-15 -Income

Income Category	Budget
Operational income	2014-15
	£
Sale of Police Services/Goods	- 3,229,000
Firearms Licences	- 237,000
Reimbursements from Public Bodies	- 480,000
Other Police Chargeable Services	- 800,000
Local Grants and Partnership contributions	- 524,000
Tier 1 sub total	- 5,270,000
Mutual Aid	- 220,000
Other income (included in ICT/Transport/Major Ops/Premises)	- 301,000
Total	- 5,791,000

Staffing Analysis (FTE)

Police Officers :	31st March 2014		3,090
	- Planned Changes 2014-15	(50)	
	- Planned Changes 2015-16	(20)	
	- Planned Changes 2016-17	(10)	
	- Planned Changes 2017-18	<u>0</u>	
			(80)
	31st March 2018		<u><u>3,010</u></u>
PCSO's :	31st March 2014 (including 4 externally funded)		384
	- Planned Changes 2014-15	(24)	
	- Planned Changes 2015-16	0	
	- Planned Changes 2016-17	0	
	- Planned Changes 2017-18	<u>0</u>	
			(24)
	31st March 2018		<u><u>360</u></u>
Police Staff :		Force	PCC
	31st March 2014	1,774	26 *
	- Planned Changes 2014-15	(37)	0
	- Planned Changes 2015-16	(44)	0
	- Planned Changes 2016-17	(16)	0
	- Planned Changes 2017-18	0	0
	31st March 2018	<u><u>1,677</u></u>	<u><u>26</u></u>

* Includes PCC and 25 staff within the Office of the Police and Crime Commissioner

Specific Grants 2014-15	Force	PCC
	£000	£000
Counter Terrorism (final confirmation outstanding)	1,480	
Victim Support and Restorative Justice		542
Proceeds of Crime Act	320	
	<u><u>1,800</u></u>	<u><u>542</u></u>

Sensitivity of Budget Assumptions 2014-15

The Police and Crime Commissioner holds specific earmarked reserves set aside to meet planned, exceptional and unpredictable costs (as set out in the Balances, Reserves and Provisions table on page 24-28). The costs set out below indicate the potential risk of drawing on general balances once the annual revenue budget 2014-15 and earmarked reserves are exhausted. It is not a prediction of potential overspending on the revenue budget in 2014-15, the reason for this is that the risk of spending less than the budget has not been included. This sensitivity analysis show that the potential risk assessed impact on general balance is less than the General Balances available of £6.198m

	Uncertainty	Cause	Basis of calculation	Financial Risk Mitigation	Assessed Impact * 2014/15 £000
JR004	Pay award 2013/14	Employer not able to agree 1% pay award for Sept 2014 onwards	Pay award agreed at 2% which is closer to forecast of CPI		266
JR004	Inflation and other budget pressures	Non pay inflation varies from OBR forecast and plan to absorb inflation buy cutting real term budgets cannot be sustained	Inflation and other pressures on non-pay budget lines	Costs are absorbed and real terms budget reductions are accepted.	279
N/A	Major Operations	Is the Major Operations reserve sufficient to fund a number of major operations?	Reserve stands at £2.4m which is 2.4 times the annual budget and is close to the Home Office threshold. The force would expect the Home Office scheme to meet costs above the reserve level. A number of smaller incidents could have an impact	Major operations reserve and access to Home Scheme to cover exceptional costs	200
JR021/JR001	Service changes cannot be made within approved timescales (police staff reviews)	Due to complexity of interlinking initiatives and the need to maintain service provisions Force unable to deliver police staff savings contained within MTFs	Twenty percent variation on staff turnover and three month delay in delivery of staff reductions		122
JR004	Police Officer wastage	Budget assumption that police officers will retire at the earliest opportunity, plus fixed recruitment points means a financial risk occurs if retirement patterns vary from the assumption	Number of officer retiring at earliest opportunity reduces from 90% to 70%	Budget profile reflects existing retirement pattern	124
JR004	Job Evaluation costs are higher then forecast	Estimate of impact of job evaluation less than actual impact	Cost exceeds monies set aside in Workforce Modernisation Reserve		133
JR021/JR001	Service changes cannot be made within approved timescales and budgets (Force Programme)	Force unable to deliver change management and ICT developments within resources available	Variation in costs to be met from Programme and Projects Reserves	Programme and Projects Reserve	0
N/A	ICT FM Contract	Changeover costs of FM contract exceed budget provision	Changeover and other costs cause 10% overspend on budget		30
N/A	OPCC Capacity and Capability	OPCC unable to deliver Police and Crime Plan within resources available	Temporary requirement for funding pending realignment of resources to meet plan		25
JR013	Legal Challenge	Legal costs and claims increase due to factors outside the Force/OPCC control	Potential impact of increase in insurance deductible and acceleration in current trend in claim costs. Excludes impact of A19 litigation	Careful management of claims and better risk management throughout the organisation.	250
N/A	Investments returns	Inaccurate forecasting of investment returns leads to receipts being less than forecast	Returns 20% lower than forecast in 2014-15	Forecasts based on independent advisers forecast rates	7
N/A	Timing of capital receipts	Slippage of capital receipts leads to reduced capital programme	Slippage on receipts delays rationalisation programme- leading to lower savings on ongoing running costs of 50% per annum - no impact until 2015-16	Balance on capital receipts reserve allows for some slippage on receipts	0
N/A	Ability of level of reserves to support internal borrowing	Increased cost of borrowing if capacity for internal borrowing reduced	£9m internal borrowing substituted for external borrowing 5 year maturity	Careful modelling of cash flow	50
					1486

*assessed impact is based on a quantification of the total financial risk and likelihood assessment

Commissioning and Partnership Working

Area	Devon	Cornwall	Plymouth	Torbay	IOS	Other	Totals
	£	£	£	£	£	£	£
Community Safety Partnerships	583,000	468,000	426,000	210,000	17,000	0	1,704,000
Youth Offending Teams			(to be allocated)			549,000	549,000
Safeguarding Children Boards			(to be allocated)			58,000	58,000
Safeguarding Adults Boards			(to be allocated)			20,000	20,000
Safeguarding Project	5,000	5,000	5,000	5,000	0	0	20,000
Victim Support			(centralised allocation)			357,000	357,000
Restorative Justice	20,000	20,000	20,000	20,000	0	105,000	185,000
Sexual Assault referral Centres (SARCs):			(centralised allocation)			200,000	200,000
Unallocated:						122,000	122,000
Total Allocations	608,000	493,000	451,000	235,000	17,000	1,411,000	3,215,000
Staffing costs of commissioning and working							141,000
Gross Budget							3,356,000
Less Specific Grant							-542,000
Net Budget							2,814,000

Council Tax Information and Precept

Tax base, collection variations and precepts					
	Tax Base declared by Councils	Total Precept payable by Councils £	Surplus (Deficit) on collection £	Amount due from Councils £	% share payable by Councils
East Devon	54,047.00	£8,980,449.52	£0.00	£8,980,449.52	9.63%
Exeter	34,344.00	£5,706,599.04	£27,437.00	£5,734,036.04	6.15%
Mid Devon	26,996.05	£4,485,663.67	£55,028.00	£4,540,691.67	4.87%
North Devon	31,543.02	£5,241,188.20	-£7,300.94	£5,233,887.26	5.61%
Plymouth	67,066.00	£11,143,686.56	£194,763.00	£11,338,449.56	12.16%
South Hams	36,250.26	£6,023,343.20	£53,000.00	£6,076,343.20	6.52%
Teignbridge	44,548.00	£7,402,095.68	£0.00	£7,402,095.68	7.94%
Torbay	41,713.28	£6,931,078.60	£89,957.00	£7,021,035.60	7.53%
Torrige	21,778.03	£3,618,637.46	£44,207.00	£3,662,844.46	3.93%
West Devon	19,185.50	£3,187,862.68	£0.00	£3,187,862.68	3.42%
Cornwall	175,908.63	£29,228,977.96	£609,000.00	£29,837,977.96	32.00%
Isles of Scilly	1,319.10	£219,181.66	£13,000.00	£232,181.66	0.25%
	<u>554,698.87</u>	<u>£92,168,764.23</u>	<u>£1,079,091.06</u>	<u>£93,247,855.29</u>	<u>100.0%</u>

Police element of Council Tax due for each Property Valuation Band						
Valuation band	Government multiplier		Council Tax by band		Increase per week	%
	Ratio		2014-15	2013-14		
A	6 / 9	0.667	£110.77	£108.61	+ 4.2 p	} 1.99%
B	7 / 9	0.778	£129.24	£126.72	+ 4.8 p	
C	8 / 9	0.889	£147.70	£144.82	+ 5.5 p	
D	1	1.000	£166.16	£162.92	+ 6.2 p	
E	11 / 9	1.222	£203.08	£199.12	+ 7.6 p	
F	13 / 9	1.444	£240.01	£235.33	+ 9.0 p	
G	15 / 9	1.667	£276.93	£271.53	+ 10.4 p	
H	18 / 9	2.000	£332.32	£325.84	+ 12.5 p	

Calculation of relevant basic amount of Council Tax		
Council Tax Requirement	£ 92,168,764.23	Band D Council Tax
Tax Base	<u>554,698.87</u>	= £166.16

Four Year Capital Programme 2013-14 to 2016-17

Introduction

1. The capital programme reflects the investment priorities of the Force and the Police and Crime Commissioner. It is constrained by the capital finance available and the overriding factors are:
 - the availability of revenue funding to meet the ongoing costs of borrowing;
 - the availability of capital receipts from the disposal of surplus property to fund the Exeter Criminal Justice Centre and HQ rationalisation Programme and the Force-wide estates rationalisation programme;
 - and the availability of capital grant and revenue reserves to fund the vehicle replacement programme, the capital spending relating to the Force Programme and replacement of ICT infrastructure.

Resources Available to Fund to Capital Programme

2. The policy of the Police and Crime Commissioner is to fund the estates programme from either capital receipts that arise from the disposal of property assets or from borrowing. In 2014-15 and 2015-16 the estates rationalisation programme and the Exeter Criminal Justice Centre make up the bulk of the estates programme and these works are funded from capital receipts. From 2016-17 the current estate rationalisation comes to an end and it will be necessary for the PCC to borrow to fund the refurbishment schemes planned for 2016-17 and 2017-18.
3. Short life assets are funded from Home Office capital grant or the capital financing reserve.
4. The resources available to fund the capital programme over the next 4 years are set out in table 1.

Table 1

	Capital Financing Resources	As at 31 March 2014 £000	Additional Resources			
			2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000
1	Planned Borrowing	N/A	1,955	0	700	1,400
2	Capital Financing Reserve	6,964	500	250	250	250
3	Capital Grant	1,199	2,870	2,870	2,870	2,870
4	Capital Receipts	2,679	2,885	18,545	8,000	0
5	Total Capital Resources	10,842	8,210	21,665	11,820	4,520

5. This programme was compiled before the planning decision with regard to the development of part of the Middlemoor site and the profile assumes that the receipt from the disposal of land to Morrisons will take place in 2015-16. This assumption will need to be revised following the success of the planning application (see paragraph 8 below).

Proposed Programme

6. The overall programme is summarised in Annex 1 and described in the detail below.

Property Schemes

7. The main elements of the property programme are summarised in the table 2.

Table 2

	Property Programme	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000
	Capital Spending				
1	Exeter Criminal Justice Centre and related works	711	12,000	5,921	0
2	Estates rationalisation programme	201	3,016	2,799	0
3	Other estates projects	250	750	750	0
4	Refurbishment schemes	0	0	700	1,400
5	Sub total	1,162	15,766	10,170	1,400
6	Carry-forward from 2013-14	3,352			
7	Total Spending	4,514	15,766	10,170	1,400
	Financing				
8	Long-term borrowing	829	0	700	1,400
9	Temporary Borrowing	1,126	0	0	0
10	Revenue Reserves	856	950	750	0
11	Capital Receipts	1,703	14,816	8,720	0
12	Total Financing	4,514	15,766	10,170	1,400

8. The property programme is in line with the current Estates Strategy that was approved in February 2010.
9. **Exeter Criminal Justice Centre and related works** – this major project replaces the custody facilities currently provided at Heavitree Road Police Station in Exeter with a new custody and criminal justice facility on the Middlemoor site. It is funded by the disposal of a portion of the Middlemoor site and a conditional contract for the sale of 8 acres of the land to Morrisons Plc has been obtained. The profile of capital receipts and expenditure reflects the capital programme presented to the Police and Crime Panel on 8 February which assumed receipt of the sale proceeds from the supermarket site in 2015-16. Approval of the planning application to develop the site on 20 January 2014, means that it is likely that the capital receipt will be received in 2014-15 and that the spend profile of the project can be brought forward to some degree.
10. Temporary borrowing is required to fund enabling works in advance of the receipt of the sale proceeds. The overall project includes the relocation of the Air Support Unit and the Devon Air Ambulance including the helicopters and landing facilities to Exeter Airport.

11. **Estates rationalisation programme** – this part of the programme aims to rationalise Force accommodation and reduce the overall footprint by 12% and at the same time reduce the running costs of the estate by £500,000 before the end of 2016. The programme is self funding as receipts from disposal of current property are used to fund the re-provision of more efficient accommodation. Details of the rationalisation projects and the properties that will be disposed of are listed at Annex 2.
12. Detailed business cases for the projects included in the Force-wide estates rationalisation programme, the Exeter Criminal Justice Centre programme and for the Plymouth Property Store will be presented to the Commissioner's Management Board for consideration once they have been completed.

Risk Factors within the Property Programme

13. The main risk factors with the property programme are as follows:

Realisation of the Capital Receipts

14. Of a total programme of £32m, £26m is funded from capital receipts from the disposal of property. This means that the programme is highly dependent on achieving the sale prices forecast for the various disposals.
15. Total forecast receipts are £32m of which almost £4m is needed to meet costs already incurred on the Middlemoor re-development project and £26m to fund the four year programme. This means that there is a balance of approximately £2m available receipts at the end of 2017-18. The receipts balance at the end of each financial year is shown row 24 of Annex 1.
16. The property programme and the disposal schedule will therefore require careful management and monitoring to ensure that commitments are not entered into that exceed the guaranteed receipts available. This is particularly the case for the new Exeter Criminal Justice Centre due to the size of the project in relation to the overall programme and the lack of alternative funding for this project. In order to ensure that the receipt from the sale of the land to Morrison's is properly applied to priority facilities and to ensure that the costs can be contained within the resources available the business case for this project will be thoroughly reviewed and updated in early 2014-15.

Changing requirements in relation to the Force's policing delivery model

17. It may be necessary to make changes to the programme to provide accommodation to fit the Force's integrated policing delivery model. It should be noted that the scope for changes is very limited without introducing additional borrowing at a cost to the revenue budget.

Information and Communication Technology

18. Information and Communication Technology comprises the programme to replace core ICT infra-structure as it comes to end of life and the programme to fund the capital elements of the Force Programme.
19. The ICT programme reflects the Force ICT roadmap and includes the rolling programme to replace Airwave handsets and replacement of the call handling system for the Force control rooms. Replacement of all equipment and infrastructure is on an end of life basis. It should be noted that there is no provision within the programme to achieve a “step change” in the use of ICT. For example, over the four year period of the programme changes in technology or working practices may indicate that the Force needs to move from its current mainly desk-top based provision to an alternative way of providing access to ICT. Making such a step change may or may not require significant additional capital resources depending on the level and timing of any change programme. As noted at paragraph 27 below these are not available within the current funding forecasts.
20. The capital programme provision for the Force Programme is on the basis of existing approved projects only plus some limited provision for new technology for investigation.
21. The Force has been successful with three bids to the Home Office Innovation Fund. Two of the projects are collaborative bids that have been led by other South West Forces and the remaining bid is a Devon and Cornwall only project. The capital expenditure arising from these projects is not clear at this point. Approval will be sought to increase the capital programme once the full details are available.

Table 3

	Information and Communication Technology Programme	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000
	Capital Spending				
1	ICT Infrastructure Replacement	2,122	2,050	1,433	1,725
2	Force Programme	76	76		
3	New Technology for Investigation	50	50		
4	Carry forward from 2013-14	28			
5	Total Spending	2,276	2,176	1,433	1,725
4	Capital Grant	956			
5	Revenue Reserves	1,320	2,176	1,433	1,725
6	Total Financing	2,276	2,176	1,433	1,725

Vehicles and Workshops

22. In recent years, vehicle life before replacement has been extended in order to obtain better value for money. For 2014-15 onwards the mileage threshold for the replacement of all vehicles other than response vehicles will be extended from 130,000 to 150,000 miles in order to achieve further savings. This has been done after a review by the Head of Transport Services to ensure that the safety of vehicles will be maintained. This policy and the overall provision for vehicle replacement will need to be kept under review to ensure that operational requirement can be met.

Table 4

	Vehicle Replacement Programme and Workshop Equipment	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000
	Capital Spending				
1	New capital spending	2,859	1,561	2,130	2,052
2	Carry forward from 2013-14	4			
3	Total Spending	2,863	1,561	2,130	2,052
4	Capital Grant	2,863	1,561	2,130	2,052
5	Total Financing	2,863	1,561	2,130	2,052

Equipment

23. Body armour has a life of between 5 and 10 years and the last major programme of replacement took place in 2009-10. Provision is contained within the programme for rolling replacement of body armour.
24. The Force strategy on roads policing links to the national strategy on policing the roads. This relies on effective ANPR technology and in order to keep abreast of national developments it is proposed that £450,000 is invested in ANPR technology in 2014-15.

Table 5

	Equipment	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000
	Capital Spending				
1	Body Armour	250	250	250	250
2	ANPR	450			
3	Total Spending	700	250	250	250
4	Capital Grant	250			
5	Capital Financing Reserve	450			
6	Total Financing	700	250	250	250

Revenue Implications of the Proposed Programme

25. There are no significant additional capital financing implications from the above programme in 2014-15 and 2015-16. The new borrowing for the property programme in 2016-17 and 2017-18 is set to increase borrowing costs by approximately £60,000 in 2017-18 and there will be a similar level of increase in the costs of the minimum revenue provision in 2017-18. These increases have been reflected in the Medium Term Financial Strategy (MTFS).
26. The estates rationalisation programme is designed to reduce the revenue running costs of the building estate overall and these savings have been reflected in the MTFS.

As yet Unidentified Capital Requirements and Capital Investment beyond 2017-18

27. Part 3 of Annex 1 shows the balance of unapplied capital financing resources as at 31 March 2014 and for the four following years. As at 31 March 2014 available resources are forecast to be £10.8m, over the four year period of the capital programme this balance is used to fund the planned projects within the programme so that by 31 March 2017 the balance is £2.6m. Furthermore by 2017-18 additional capital resources received during the year (excluding borrowing) have reduced to £3.1m as shown in table 1.
28. The OPCC and the Force plan to undertake a financial road map project in 2014-15 to determine how to balance the revenue budget by 2017-18. Along with other objectives, this project will look at what investments may be required to facilitate the transformation in service provision that will be necessary to reduce costs whilst maintaining service delivery. This may include capital investment and no provision is included in the proposed programme to cover such investment. In addition, as noted at paragraph 18 the capital programme does not include provision for a step change in ICT provision if this is required.
29. In the light of the fact that unapplied capital reserves reduce to £2.6m by 31 March 2017 and potential need for further capital investment it is recommended that the Financial Roadmap project includes consideration of capital investment need and available capital resources as part of its overall budget considerations.

Capital Programme 2014-15 Onwards

	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000	Total £000
1. Capital Expenditure					
1 Exeter Custody Project	711	12,000	5,921	0	18,632
2 Estates Rationalisation Programme	201	3,016	2,799		6,016
3 Other Estates Projects	250	750	1,450	1,400	3,850
4 Total Estates Programme	1,162	15,766	10,170	1,400	28,498
5 Vehicles Replacement Programme	2,859	1,561	2,130	2,052	8,602
6 ICT Infrastructure Replacement	2,122	2,050	1,433	1,725	7,330
7 Force Programme	126	126	0	0	252
8 Equipment Replacement	700	250	250	250	1,450
9 Total Short Life Assets	6,969	19,753	13,983	5,427	46,132
10 2013-14 Programme Bfwd	3,384				3,384
11 Total Programme	10,353	19,753	13,983	5,427	49,516
2. Capital Financing					
Receipt from Sale of Land at					
12 Middlemoor	0	12,000	5,921	0	17,921
13 Other Capital Receipts	1,703	2,816	2,799	0	7,318
14 Capital Grants	4,069	1,811	2,880	3,306	12,066
15 Capital Financing Reserve	2,626	3,126	1,683	721	8,156
16 Temporary Borrowing	1,126	0	0	0	1,126
17 Long Term Borrowing	829	0	700	1,400	2,929
18 Total Financing for current capital programme	10,353	19,753	13,983	5,427	49,516
Repay temporary borrowing with regard to the Exeter Criminal Justice Centre					
19		4,955			4,955
20 Total Financing Requirement	10,353	24,708	13,983	5,427	54,471
3. Financing Resources					
	Bal as at March 14 £000	Bal as at March 15 £000	Bal as at March 16 £000	Bal as at March 17 £000	Bal as at March 18 £000
21 Capital Receipts	2,679	3,861	2,635	1,915	1,915
22 Home Office Grant Unapplied	1,199	-	1,059	1,049	613
23 Capital Financing Reserve	6,964	4,838	1,962	529	58
24 Total Resources excluding borrowing	10,842	8,699	5,656	3,493	2,586

Estates Rationalisation Programme

New Start Projects	Year	Disposals	Year
Plymstock	2014-15		
New Truro Police Office	2014-15	Truro Police Station	2014-15
Hayle LPB	2014-15	Hayle Police Station (FH)	2014-15
Dartmouth LPB	2014-15	Dartmouth Police Station	2014-15
Braunton LPBase	2014-15	Braunton Police Station (FH)	2014-15
Axminster LPB	2014-15	Axminster Police Station (FH)	2014-15
Chudleigh LPB	2014-15	Chudleigh Police Station	2014-15
South Brent LPB	2014-15	South Brent Police Station	2014-15
St Blazey LPB	2014-15	St Blazey Police Station	2014-15
Torpoint LPB	2014-15	Torpoint Police Station	2014-15
		Teignmouth Shopfront (LH)*	2014-15
New Liskeard Police Station	2015-16		
Torrington LPB	2015-16	Torrington Police Station	2015-16
Budleigh Salterton LPB	2015-16		
Looe LPB	2015-16	Looe Police Station (FH)	2015-16
Saltash LPB	2015-16	Saltash Police Station (FH)	2015-16
Callington LPB	2015-16	Callington Police Station (FH)	2015-16
Wadebridge LPB	2016-17	Wadebridge Police Station	2016-17
Plympton LPB	2016-17	Plympton Police Station (LH)*	2015-16
New Exmouth Police Station	2016-17	Exmouth Police Station (FH)	2016-17
New Okehampton Police Station	2016-17	Okehampton Police Station (FH)	2016-17
Ifracombe LPB	2016-17	Ifracombe Police Station (FH)	2016-17
Helston LPB	2016-17	Helston Police Station (FH)	2016-17
Exeter Central LPB	2016-17	Rosemoor Court, Pynes Hill (LH)	2015-16
		Exeter Heavitree Rd Police Station	2016-17
St Ives LPB	2016-17	St Ives Police Station (FH)	2016-17
		St Andrews Court, Plymouth (LH) *	2016-17
		Plympton Alder Court (LH)*	2019-20

* These properties were replaced by schemes included in previous years programmes

Capital Expenditure & Prudential Indicators 2014-15

Capital Programme 2014-15 onwards

	2014-15	2015-16	2016-17	2017-18	Total
	£000	£000	£000	£000	£000
Total Programme	10,353	19,753	13,983	5,427	49,516
Financed by:					
Long Term Borrowing	829	-	700	1,400	2,929
Temporary Borrowing	1,126	-	-	-	1,126
Home Office Capital Grant	4,069	1,811	2,880	3,306	12,066
Reserves	2,626	3,126	1,683	721	8,156
Capital Receipts	1,703	14,816	8,720	0	25,239
Total Financing for Current Capital Programme	10,353	19,753	13,983	5,427	49,516

Prudential Indicators

The Police and Crime Commissioner is required to consider a range of indicators in order to form a judgement about whether the proposed level of debt is affordable, prudent and sustainable.

The indicators below show the impact of the capital expenditure and the level of debt on the revenue budget and hence provide information on the affordability of the capital expenditure plans.

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

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

	2014-15	2015-16	2016-17	2017-18
	£000	£000	£000	£000
Minimum Revenue Provision	1,421	1,421	1,421	1,421
Interest payable on Long Term Borrowing	1,344	1,345	1,431	1,494
Interest Received (net)	(325)	(392)	(546)	(679)
Capital Financing Costs	2,440	2,374	2,306	2,236
Net Budget Requirement	284,491	279,998	276,085	271,286
Ratio of financing costs to net revenue stream	0.86%	0.85%	0.84%	0.83%

(ii) Incremental Impact on Council Tax

This indicator shows the incremental impact on the Band D council tax payer of the additional capital expenditure funded from borrowing included in the 2014-15 capital programme.

	2013-14	2014-15	2015-16	2016-17
Incremental increase in Council Tax arising from Capital Expenditure Plans	£0.03p	£0.04p	£0.04p	£0.05p

Treasury management indicators are set out in the Treasury Management Strategy.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Opening	External	Budgeted	Budgeted	Other	Total	Financing	Budget	In-Year	Forecast	Closing
	Balance	Grants &	Contributions	Applications	Internal	before	Cap Prog	balance	Policy	budget	Balance
	£000	£000	£000	£000	Financing	£000	£000	£000	Decisions	variations	£000
		receipts			£000	£000			£000	£000	
General Balances	6,198					6,198		6,198			6,198
Earmarked revenue reserves:											
Investment in Assets and Service Transformation											
Programmes & Projects Reserve	6,279		(1,494)			4,785		4,785	(1,397)	1,800	5,188
Estates Development Reserve	580	160	(218)			522		522			522
Capital Financing Reserve	7,209	250				7,459	(694)	6,765	199		6,964
Reserves for Exceptional Costs											
Workforce Modernisation Reserve	7,764	2,299	(2,236)			7,827		7,827			7,827
Remuneration Reserve	2,876					2,876		2,876			2,876
Reserves for Unpredictable Costs											
Police Officer Ill Health	500					500		500			500
Transition Fund	183					183		183	(183)		0
Major Operations Reserve	2,376					2,376		2,376			2,376
Revenue Smoothing and Budget Mgt											
Budget Management Fund	1,666					1,666		1,666	(1,666)		0
Revenue Smoothing Fund	14,375	5,490				19,865		19,865		3,100	22,965
Sub-total - general reserves	43,808	0	8,199	(3,948)	0	48,059	(694)	47,365	(3,047)	4,900	49,218
Specific Capital Reserves / Grants:											
Capital Grant	4,716	2,704				7,420	(6,221)	1,199			1,199
Capital Receipts	2,186	1,558				3,744	(1,065)	2,679			2,679
Sub-total - specific reserves	6,902	4,262	0	0	0	11,164	(7,286)	3,878	0	0	3,878
Total - Balance sheet "Reserves"	50,710	4,262	8,199	(3,948)	0	59,223	(7,980)	51,243	(3,047)	4,900	53,096
Provisions											
Insurance	1,408		385	(385)		1,408		1,408			1,408
Remuneration	466					466		466	(466)		0
Other	724					724		724	(724)		0
Sub-total - Balance Sheet "Provisions"	2,598	0	385	(385)	0	2,598	0	2,598	(1,190)	0	1,408
Total - Balances and Reserves 2013-14	<u>59,506</u>	<u>4,262</u>	<u>8,584</u>	<u>(4,333)</u>	<u>0</u>	<u>68,019</u>	<u>(7,980)</u>	<u>60,039</u>	<u>(4,237)</u>	<u>4,900</u>	<u>60,702</u>

Borrowing (including Minimum Revenue Provision) (1,305)

Capital Funding (9,285)

2014-15

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Opening Balance	External Grants & receipts	Budgeted Contributions	Budgeted Applications	Other Internal Financing	Total Financing before	Financing Cap Prog	Budget balance	In-Year Policy Decisions	Forecast budget variations	Closing Balance
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
						(1 : 5)		(6 : 7)			(8 : 10)
General Balances	6,198					6,198		6,198			6,198
Earmarked revenue reserves:											
Investment in Assets and Service Transformation											
Programmes & Projects Reserve	5,188		(3,225)			1,963		1,963			1,963
Estates Development Reserve	522	160	(117)			565		565			565
Capital Financing Reserve	6,964	500				7,464	(2,626)	4,838			4,838
Reserves for Exceptional Costs											
Workforce Modernisation Reserve	7,827		(1,457)			6,370		6,370			6,370
Remuneration Reserve	2,876					2,876		2,876			2,876
Reserves for Unpredictable Costs											
Police Officer Ill Health	500					500		500			500
Major Operations Reserve	2,376					2,376		2,376			2,376
Revenue Smoothing and Budget Mgt											
Revenue Smoothing Fund	22,965		3,609			26,574		26,574			26,574
Sub-total - general reserves	49,218	0	4,269	(4,799)	0	48,688	(2,626)	46,062	0	0	46,062
Specific Capital Reserves / Grants:											
Capital Grant	1,199	2,870				4,069	(4,069)	0			0
Capital Receipts	2,679	2,885				5,564	(1,703)	3,861			3,861
Sub-total - specific reserves	3,878	5,755	0	0	0	9,633	(5,772)	3,861	0	0	3,861
Total - Balance sheet "Reserves"	53,096	5,755	4,269	(4,799)	0	58,321	(8,398)	49,923	0	0	49,923
Provisions											
Insurance	1,408		385	(385)		1,408		1,408			1,408
Remuneration	0					0		0			0
Other	0					0		0			0
Sub-total - Balance sheet "Provisions"	1,408	0	385	(385)	0	1,408	0	1,408	0	0	1,408
Total - Balances and Reserves 2014-15	60,702	5,755	4,654	(5,184)	0	65,927	(8,398)	57,529	0	0	57,529
						Borrowing (including Minimum Revenue Provision)	(1,955)				
						Capital Funding	(10,353)				

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Opening Balance	External Grants & Contributions receipts	Budgeted Contributions	Budgeted Applications	Other Internal Financing	Total before Financing	Financing Cap Prog	Budget balance	In-Year Policy Decisions	Forecast budget variations	Closing Balance
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
					(1 : 5)			(6 : 7)			(8 : 10)
General Balances	6,198					6,198		6,198			6,198
Earmarked revenue reserves:											
Transformation											
Programmes & Projects Reserve	1,963		118			2,081		2,081			2,081
Estates Development Reserve	565		160	(505)		220		220			220
Capital Financing Reserve	4,838		250			5,088	(3,126)	1,962			1,962
Reserves for Exceptional Costs											
Workforce Modernisation Reserve	6,370			(120)		6,250		6,250			6,250
Remuneration Reserve	2,876					2,876		2,876			2,876
Reserves for Unpredictable Costs											
Police Officer Ill Health	500					500		500			500
Major Operations Reserve	2,376					2,376		2,376			2,376
Revenue Smoothing and Budget Mgt											
Revenue Smoothing Fund	26,574		169			26,743		26,743			26,743
Sub-total - general reserves	46,062	0	697	(625)	0	46,134	(3,126)	43,008	0	0	43,008
Specific Capital Reserves / Grants:											
Capital Grant	0	2,870				2,870	(1,811)	1,059			1,059
Capital Receipts	3,861	18,545			(4,955)	17,451	(14,816)	2,635			2,635
Sub-total - specific reserves	3,861	21,415	0	0	(4,955)	20,321	(16,627)	3,694	0	0	3,694
Total - Balance sheet "Reserves"	49,923	21,415	697	(625)	(4,955)	66,455	(19,753)	46,702	0	0	46,702
Provisions											
Insurance	1,408		385	(385)		1,408		1,408			1,408
Remuneration	0					0		0			0
Other	0					0		0			0
Sub-total - Balance sheet "Provisions"	1,408	0	385	(385)	0	1,408	0	1,408	0	0	1,408
Total - Balances and Reserves 2015-16	57,529	21,415	1,082	(1,010)	(4,955)	74,061	(19,753)	54,308	0	0	54,308
						Borrowing (including Minimum Revenue Provision)	0				
						Capital Funding					

	(1) Opening Balance £000	(2) External Grants & receipts £000	(3) Budgeted Contributions £000	(4) Budgeted Applications £000	(5) Other Internal Financing £000	(6) Total before Financing £000 (1 : 5)	(7) Financing Cap Prog £000	(8) Budget balance £000 (6 : 7)	(9) In-Year Policy Decisions £000	(10) Forecast budget variations £000	(11) Closing Balance £000 (8 : 10)
General Balances	6,198					6,198		6,198			6,198
Earmarked revenue reserves:											
Transformation											
Programmes & Projects Reserve	2,081		363			2,444		2,444			2,444
Estates Development Reserve	220		160	(160)		220		220			220
Capital Financing Reserve	1,962		250			2,212	(1,683)	529			529
Reserves for Exceptional Costs											
Workforce Modernisation Reserve	6,250					6,250		6,250			6,250
Remuneration Reserve	2,876					2,876		2,876			2,876
Reserves for Unpredictable Costs											
Police Officer Ill Health	500					500		500			500
Major Operations Reserve	2,376					2,376		2,376			2,376
Revenue Smoothing and Budget Mgt											
Revenue Smoothing Fund	26,743			(6,914)		19,829		19,829			19,829
Sub-total - general reserves	43,008	0	773	(7,074)	0	36,707	(1,683)	35,024	0	0	35,024
Specific Capital Reserves / Grants:											
Capital Grant	1,059	2,870				3,929	(2,880)	1,049			1,049
Capital Receipts	2,635	8,000				10,635	(8,720)	1,915			1,915
Sub-total - specific reserves	3,694	10,870	0	0	0	14,564	(11,600)	2,964	0	0	2,964
Total - Balance sheet "Reserves"	46,702	10,870	773	(7,074)	0	51,271	(13,283)	37,988	0	0	37,988
Provisions											
Insurance	1,408		385	(385)		1,408		1,408			1,408
Remuneration	0					0		0			0
Other	0					0		0			0
Sub-total - Balance sheet "Provisions"	1,408	0	385	(385)	0	1,408	0	1,408	0	0	1,408
Total - Balances and Reserves 2015-16	54,308	10,870	1,158	(7,459)	0	58,877	(13,283)	45,594	0	0	45,594
						Borrowing (including Minimum Revenue Provision)	(700)				
						Capital Funding	(13,983)				

	(1) Opening Balance £000	(2) External Grants & receipts £000	(3) Budgeted Contributions £000	(4) Budgeted Applications £000	(5) Other Internal Financing £000	(6) Total before Financing £000 (1 : 5)	(7) Financing Cap Prog £000	(8) Budget balance £000 (6 : 7)	(9) In-Year Policy Decisions £000	(10) Forecast budget variations £000	(11) Closing Balance £000 (8 : 10)
General Balances	6,198					6,198		6,198			6,198
Earmarked revenue reserves:											
Transformation											
Programmes & Projects Reserve	2,444					2,444		2,444			2,444
Estates Development Reserve	220		160	(160)		220		220			220
Capital Financing Reserve	529		250			779	(721)	58			58
Reserves for Exceptional Costs											
Workforce Modernisation Reserve	6,250					6,250		6,250			6,250
Remuneration Reserve	2,876					2,876		2,876			2,876
Reserves for Unpredictable Costs											
Police Officer Ill Health	500					500		500			500
Major Operations Reserve	2,376					2,376		2,376			2,376
Revenue Smoothing and Budget Mgt											
Revenue Smoothing Fund	19,829			(8,471)		11,358		11,358			11,358
Sub-total - general reserves	35,024	0	410	(8,631)	0	26,803	(721)	26,082	0	0	26,082
Specific Capital Reserves / Grants:											
Capital Grant	1,049	2,870				3,919	(3,306)	613			613
Capital Receipts	1,915					1,915	0	1,915			1,915
Sub-total - specific reserves	2,964	2,870	0	0	0	5,834	(3,306)	2,528	0	0	2,528
Total - Balance sheet "Reserves"	37,988	2,870	410	(8,631)	0	32,637	(4,027)	28,610	0	0	28,610
Provisions											
Insurance	1,408		385	(385)		1,408		1,408			1,408
Remuneration	0					0		0			0
Other	0					0		0			0
Sub-total - Balance sheet "Provisions"	1,408	0	385	(385)	0	1,408	0	1,408	0	0	1,408
Total - Balances and Reserves 2015-16	45,594	2,870	795	(9,016)	0	40,243	(4,027)	36,216	0	0	36,216
						Borrowing (including Minimum Revenue Provision)	(1,400)				
						Capital Funding	(5,427)				

Force Value for Money Statement

During the current CSR we have already had to make significant cash savings of around £41m in order to balance budgets. We have imposed significant cuts on an unprecedented scale. Police staff posts have reduced by around 385; we have reduced vehicles, buildings and IT and we have reduced police officer numbers by around 400.

The next four years present further cash cuts as the government's austerity programme continues. It is estimated that savings of around £28m are required over the next four years just to balance the budget.

The budget for 2014/15 seeks to maintain officer numbers above 3,000, maintain PCSO numbers at 360 and increase special and volunteer numbers. As the force develops its workforce plan and operating model, it is clear that the officers we have remaining will be more multifunctional. Individual officers, especially in our more rural areas, will undertake a range of investigation, neighbourhood and patrol functions. In addition, the force simply cannot hold 'standing armies' of specialist officers that may only be called on infrequently. Officer numbers are important to ensure we can meet our Strategic Policing Requirement functions (such as mutual aid) and be available to provide other cross border support.

Savings	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2014-18 Total £m
MTFS projected savings	-7.4	-5.3	-6.2	-8.6	-27.5

Details of the savings contained in the 2014/15 budget and the medium term financial strategy are as follows :-

Savings Plan 2014-18	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m	Ref
Optimising staffing numbers within funding levels						
Police Officer Leavers (Turnover)	-2.6	-2.2	-3.4	-3.2	-11.4	
Police Officer Reduction	-0.4	-1.5	-0.8	-0.2	-2.9	
PCSO Reduction (Recruitment)	-1.0	0	0	0	-1.0	
Police Staff Reduction (Reviews)	-0.1	-1.1	-0.9	0	-2.1	1
	-4.1	-4.8	-5.1	-3.4	-17.4	
Efficiency savings						
ICT Budget Savings	-0.7	-0.3	-0.4	0	-1.4	2
National Aviation Service (NPAS)	-0.1	0	0	0	-0.1	3
Estates	-0.4	-0.2	-0.2	0	-0.8	4
Procurement	-0.3	0	0	0	-0.3	5
Vehicle / Travel	-0.1	0	0	0	-0.1	
Forensics	-0.3	0	0	0	-0.3	6
Major Operations	-0.4	0	0	0	-0.4	
Other Locally Managed Budgets	-1.0	0	0	-0.1	-1.1	

	-3.3	-0.5	-0.6	-0.1	-4.5
Unidentified budget cuts	0	0	-0.5	-5.1	-5.6
Total Savings Plan	-7.4	-5.3	-6.2	-8.6	-27.5

Reference to project board / business case :-

1. Police Enquiry Officer (PEO) Review – Revisit of previous business case approved 2010/2011
Crime Investigation Review – Business case approved by Force Management Board (FMB) 2013

All reviews will be subject to a further written business case (including EIA) at Chief Officer Group (COG) prior to formal consultation with staff; and a final business case following that consultation

2. Service Management Contract Replacement Steering Committee – decision making will be through the programme board with business case approval at COG
3. National business case approved by Chief Constables 2012
4. Estates Strategy – as presented through budget. Individual cases for disposal/sale will be made through COG to Joint Management Board (JMB)
5. Regional Procurement Project Board – Gate 2 documentation for each procurement agreed through regional project board
6. Regional Forensics business case agreed at Regional PCC/CC meeting 2013

Staff Numbers

Policing is a people based service and the numbers of officers, police staff and volunteers it has are vital to the delivery of the Police and Crime Plan targets. The value for money plan shows the financial detail of the workforce plans that lie within the medium term financial strategy. The key issues are :-

- Replacement of leavers with new start police officers.
- Reduction in PCSO numbers through natural wastage
- Additional investment in the recruitment of Specials and volunteers.
- Further reductions in police staff post and people numbers through targeted reviews in the following business areas :-
 - Police Enquiry Offices
 - Criminal Justice
 - Custody
 - Crime Investigation
 - Firearms Licensing

Back office functions costs – HR, Finance, Administration and related, were significantly reduced in 2010 and 2011 and now show in the bottom quartile for costs in the HMIC VfM

profiles. Ongoing vacancy management will also identify further savings through natural wastage.

ICT budget savings

Significant work has been undertaken in the first part of the CSR to reduce the costs of our outsourced IT provision and Devon and Cornwall costs are now much reduced. For 2014/15, there has been a thorough review of a range of IT budgets and a significant project is underway to deliver significant savings from the renewal of the managed services outsourced contract. Terminal numbers will be reduced further in line with staffing reductions and increased utilisation.

National Police Aviation Service

The NPAS service for the south-west forces started in July 2013 and this has delivered savings in running and renewal costs of the helicopter provision for Devon and Cornwall.

Estates

The Estate Strategy is to continue to modernise and re-provide police buildings, without the need to borrow, through selling parts of the estate. A medium term plan has been drawn up and savings in running costs as well as borrowing costs built into the budget. A significant project sees the sale of part of the Headquarters site and the reinvestment of that in the provision of much needed new operational buildings for the Exeter conurbation.

Procurement

The South-West regional procurement department has delivered improved procurement at a lower overall cost across four forces. The process has already delivered significant financial savings through better joined up procurement and more are anticipated over the next few years. Greater economies of scale can be achieved through joint purchasing and leveraging better prices from commercial suppliers.

Forensics

Price reductions from a multi-force contract and better management of forensic submissions have resulted in reduced spending with no detriment to investigations and positive outcomes. Regional forensics service to be developed which will deliver further savings.

Other locally managed budgets

Each individual budget line has been reviewed as part of our ongoing financial monitoring and the regular budget preparation process. Reductions have been identified, based on current spending patterns and known commitments. Significant reductions include interpreters and general equipment which have been adjusted in line with current demand.

Unidentified budget cuts

The budget proposal for the latter two years of the strategy includes £5.6m of unspecified cuts. The clearest opportunity is through the Strategic Alliance with Dorset. Closer

collaborative working will deliver further back office savings through economies of scale, will deliver options to reduce our middle office costs through combining management and resilience overheads, and drive out non staff savings through smarter use of our existing assets.

Local partnerships can also offer significant opportunities for sharing services and reducing costs. We can significantly reduce demand on our services – through better working with mental health, pooling of budgets and more effective commissioning.

We are not at the point where these savings can be quantified but will be in time for the next budget round.

Non financial value for money work

Transforming the way that we provide policing and to seeking savings from across the board through more efficient working has done much to improve our efficiency on our own. However a further four years of austerity will mean we need to provide our services differently.

Significant investment in replacing our key operational systems and reviewing the way we police, interact with our customers, and control demand for our services is being managed through the Force Programme. Back office processes continue to be streamlined, and additional self service capability is being introduced, in particular for the management of absences and workforce planning.

Treasury Management Strategy for 2014-15

1.0 Purpose of the Treasury Management Strategy

1.1 The purpose of the Treasury Management Strategy is to ensure that:

(i) Revenue Cash Flow is Adequately Planned

The Police and Crime Commissioner (PCC) is required to operate a balanced budget, which in broad terms means that cash raised during the year will meet cash expenditure. The treasury management operation is designed to:

- ensure that cash flow is adequately planned during the year, with cash being available when it is needed;
- Surplus monies are invested in counterparties or instruments commensurate with the Police and Crime Commissioner's (PCC's) risk appetite, providing adequate liquidity before considering the investment return.

(ii) Funding is Available to meet Capital Expenditure Plans

The second main objective of the treasury management function is the funding of the PCC's capital plans. Capital expenditure does not have to be charged against the income for the year and for this reason longer term cash flow planning is required to ensure that the PCC can meet his capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet the PCC's risk or cost objectives.

1.2 The Treasury Management Strategy is integrated with the Medium Term Financial Strategy and this document should be read in conjunction with the report on the Medium Term Financial Strategy 2014-15 to 2017-18.

2.0 Treasury Management Strategy 2014-15

2.1 The strategy for 2014-15 covers two main areas:

2.2 Capital issues:

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

2.3 Treasury management issues:

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

- creditworthiness policy; and
- policy on use of external service providers.

2.4 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Department for Communities and Local Government's (DCLG) MRP Guidance, the CIPFA Treasury Management Code and DCLG Investment Guidance.

2.5 The PCC's objectives for treasury management both investing and borrowing are as follows:

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

3.0 The Capital Prudential Indicators 2014-15 to 2017-18

3.1 The PCC's capital expenditure plans are set out in detail in the Medium Term Financial Strategy and are summarised in table 1.

Table 1
The Capital Programme

	2013-14	2014-15	2015-16	2016-17	2017-18
	£000	£000	£000	£000	£000
Capital Expenditure	9,285	10,353	19,753	13,983	5,427
Funded By					
Gross Borrowing	1,305	1,955	0	700	1,400
Other capital resources	7980	8,398	19,753	13,283	4,027

The gross borrowing in 2013-14 and 2014-15 includes £2.351m of temporary borrowing to fund the Exeter Criminal Justice centre and related works pending the receipt of the proceeds of the sale of land at Middlemoor.

- 3.2 The capital financing requirement, is a measure of the Commissioner's underlying need to borrow.

Table 2
Capital Financing Requirement

	2013-14	2014-15	2015-16	2016-17	2017-18
	£000	£000	£000	£000	£000
Opening Capital Financing Requirement	42,234	42,144	42,678	36,302	35,581
Capital expenditure to be funded by borrowing	1,305	1,955	0	700	1,400
Less application of capital receipts to reduce borrowing*	0	0	(4,955)	0	0
Less minimum revenue provision	(1,395)	(1,421)	(1,421)	(1,421)	(1,421)
Closing Capital Financing Requirement	42,144	42,678	36,302	35,581	35,560

*This is the repayment of temporary borrowing for the Exeter Criminal Justice Centre and related works.

Capitalisation of Equal Pay

- 3.3 Following recent changes to legislation the PCC may use capital receipts to fund one off costs in relation to equal pay claims. The proposed capital programme as set out in the MTFs assumes that there will be no need to apply capital receipts to cover the one off costs of equal pay claims. This Treasury Management Strategy and in particular the calculation of the Capital Financing Requirement as set out in table 2 above and the borrowing strategy as set out in paragraph 5.9 below are based on this assumption.

Minimum Revenue Provision (MRP) Policy Statement

- 3.4 The PCC is required to pay off an element of the Capital Financing Requirement each year through a charge to revenue. DCLG regulations have been issued which require the PCC to approve an MRP Statement in advance of each year. The proposed statement is attached at Appendix 1.

Core Funds and Expected Investment Balances

- 3.5 Budget decisions with regard to contributions to and from revenue reserves and the application of resources (capital receipts, reserves etc.) to finance capital expenditure have an ongoing impact on investments. The 2014-15 Medium Term Financial Strategy includes a temporary increase to revenue reserves in the period 2014-15 to 2015-16. Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Table 3
Core Funds and Expected Investment Balances

	31/3/14	31/3/15	31/3/16	31/3/17	31/3/18
	£000	£000	£000	£000	£000
Fund balances / reserves	55,400	52,200	49,100	41,100	32,200
Unapplied capital grant/ receipts	3,900	3,900	3,700	3,000	2,500
Provisions	1,400	1,400	1,400	1,400	1,400
Total core funds	60,700	57,500	54,200	45,500	36,100
Working capital*	7,800	7,800	7,800	7,800	7,800
(Under)/over borrowing	(8,800)	(9,300)	(2,900)	(3,700)	(3,700)
Actual/Expected investments	59,700	56,000	59,100	49,600	40,200

*Working capital balances shown are estimated year end; these may be higher or lower mid year

Under Borrowing

- 3.6 Current market conditions are such that the cheapest source of borrowing for new capital expenditure is using revenue cash balances. This approach also has the benefit that it minimises credit risk. Using revenue cash balances to fund capital expenditure means that external debt levels are lower than the underlying need to borrow (see table 6 below) and this is described as under borrowing.
- 3.7 Decisions with regard to under borrowing need to be based on detailed modelling of cash balances. Table 3 illustrates that cash balances (represented by actual/expected investments) are maintained at a reasonable level throughout the period of the strategy.

4.0 Affordability Indicators 2014-15 to 2017-18

- 4.1 The affordability indicators demonstrate the impact of the capital investment plans on the PCC's overall finances.

Estimate of the ratio of net capital financing costs to revenue budget

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

Table 4
Ratio of Net Capital Financing Costs to Revenue Budget

	2013-14	2014-15	2015-16	2016-17	2017-18
	£000	£000	£000	£000	£000
Minimum Revenue Provision	1,347	1,421	1,421	1,421	1,421
Interest payable on Long Term Borrowing	1,329	1,344	1,345	1,431	1,494
Interest Received (net)	(417)	(325)	(392)	(546)	(679)
Capital Financing Costs	2,259	2,440	2,374	2,306	2,236
Net Budget Requirement	287,538	284,491	279,998	276,085	271,286
Ratio of financing costs to net revenue stream	0.79%	0.86%	0.85%	0.84%	0.82%

Incremental Impact on Council Tax

- 4.3 This indicator shows the incremental impact on the Band D council tax payer of the additional capital expenditure funded from borrowing included in the 2014-15 capital programme.

Table 5

Incremental Impact on Council Tax

	2014-15	2015-16	2016-17	2017-18
Incremental increase in Council Tax arising from Capital Expenditure Plans	£0.03p	£0.04p	£0.04p	£0.05p

5 Borrowing

- 5.1 The capital expenditure plans set out in Section 3 above provide detail of the service activity of the PCC. This section shows how those plans impact on the need to borrow and the forecast level of external borrowing.

5.2 Current Position

The PCC's borrowing position at 31 March 2014, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing. It is based on certain assumptions with regard to new borrowing which are set out in paragraph 5.9 below.

Table 6

External Debt

	2013-14	2014-15	2015-16	2016-17	2017-18
	Est	Est	Est	Est	Est
	£000	£000	£000	£000	£000
1 Debt at 1 April	32,778	32,778	32,778	32,778	31,278
2 Debt maturing	0	(2,000)	0	(4,500)	0
3 New Debt	0	2,000	0	3,000	0
4 Debt as at 31 March	32,778	32,778	32,778	31,278	31,278
5 Capital Financing Requirement	42,144	42,678	36,302	35,581	35,560
6 Finance Lease Liabilities	(590)	(590)	(590)	(590)	(590)
7 Underlying need to borrow	41,554	42,088	35,712	34,991	34,970
8 (Under)/over borrowing	8,776	9,310	2,934	3,713	3,692

- 5.3 Within the prudential indicators there are a number of key indicators to ensure that the PCC operates its activities within well defined limits. One of these is that the PCC needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2014-15 and the following two financial years.
- 5.4 The Treasurer reports that the PCC complied with this prudential indicator in the current year and does not envisage difficulties for the future (row 4 of table 6 is always lower than row 5). This view takes into account current commitments, existing plans, and the proposals in the Medium Term Financial Strategy.

Prudential Indicators for External Debt

- 5.5 **The operational boundary** is the limit which external debt is not normally expected to exceed.
- 5.6 **The Authorised Limit** represents the maximum level at which the Commissioner is able to borrow and enter into other long term liabilities. Additional borrowing beyond this level is prohibited unless the limit is revised by the Commissioner.

Table 7

Prudential Indicators for External Debt				
	2014-15	2015-16	2016-17	2017-18
	£000	£000	£000	£000
Long term borrowing for capital purposes	42,678	36,302	35,581	35,560
Maximum cash-flow deficit arising from revenue budget operations	10,000	10,000	10,000	10,000
Operational Boundary	52,678	46,302	45,581	45,560
Additional margin for unforeseen circumstances	3,000	3,000	3,000	3,000
Authorised Limit	55,678	49,302	48,581	48,560

Prospects for Long Term Interest Rates

- 5.7 The PCC has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Commissioner to formulate a view on interest rates. The Appendix 4 gives the Capita Asset Services's central view with regards to long term interest rates.

Borrowing Strategy 2014-15 to 2017-18

- 5.8 The overall aims of the borrowing strategy are:
- borrowing at the lowest possible rates in the most appropriate periods
 - minimising borrowing costs and expenses
 - the management of debt maturities to avoid large levels of maturities in any one year.
- 5.9 The borrowing strategy assumes that of the £6.5m of existing debt that matures over the next 4 years is replaced by £5m of new debt as set out in table 6. During this period the capital financing requirement reduces as set out in table 2. As a result there is a small increase in internal borrowing from £8.8m as at 31 March 2014 to £9.3m as at 31 March 2015 and then a reduction in the level of internal borrowing to approximately £3m as at 31.3.2016. In the final two years of the strategy internal borrowing is stable at £3.7m .
- 5.10 In current market conditions internal borrowing is, in the short term, the most cost efficient method of borrowing. This is because the opportunity cost of not lending working balances and reserves (i.e. the interest returns on short term loans) is significantly below the cost of borrowing to finance the capital

programme. Internal borrowing also has the advantage of reducing credit and counter party risk as external lending by the PCC is reduced.

- 5.11 An alternative to the strategy set out at paragraph 5.9 would be to maintain the internal borrowing at approximately the current level by not replacing the maturing debt. Two additional factors do, however, need to be taken into account when evaluating the level of internal borrowing, these are:
- longer trends in interest rates - borrowing rates are forecast to rise over the next four years – as set out in Appendix 4;
 - the long term ability of the PCC to sustain internal borrowing - as revenue reserve levels decline it will be more difficult to fund capital expenditure by using internal cash resources.
- 5.12 Detailed modelling work will be undertaken in conjunction with the PCC's advisers Capita Asset Services to illustrate the outcome of different interest rate and borrowing scenarios to test whether the proposed strategy is the most beneficial for the PCC in the short, medium and long term. However for the purpose of calculating the revenue budget and setting this strategy it has been assumed that internal borrowing will reduce as set out in paragraph 5.9 and table 3.

Debt Rescheduling

- 5.13 Opportunities to restructure the existing debt have been reviewed. This has shown that the cost of debt repayment in terms of premiums incurred exceeds the savings in interest. Restructuring would not therefore generate any savings at the present time.

Policy on Borrowing in Advance of Need

- 5.14 The debt strategy is based on internal borrowing (or under borrowing). Borrowing in advance of need will not occur under this strategy. For the purposes of clarity this strategy makes clear that the PCC will not borrow more than or in advance of needs, purely in order to profit from the investment of the extra sums borrowed.

Treasury Management Limits on Activity

- 5.15 **Interest Rate Exposures**

Upper limit on fixed and variable interest rate exposures for 2014-15 to 2017-18 are:-

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

	Upper Limit
Upper limit on fixed rate exposures - debt	100%
Upper limit on variable rate exposures - debt	30%

This means 70% - 100% of borrowing will be at rates fixed until the loan is repayable, while no more than 30% will be at variable rates and so liable to

change at short notice. All of the variable rate borrowing will be internal borrowing.

5.16 Maturity Structure of Borrowing

Maturity Structure of Fixed Interest Rate Borrowing

	Lower Limit	Upper Limit
	%	%
Under 12 Months	0	10
12 Months to 2 Years	0	15
2 years to 5 Years	0	25
5 Years to 10 Years	0	33
10 Years and Above	67	100

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

5.17 The actual maturity profile of the PCC debt is provided in Appendix 10.

6 Annual Investment Strategy

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

6.2 The overall aims of the PCC's investment strategy are:

- to limit the risk of the loss of capital
- ensure funds are always available to meet cash-flow requirements
- to maximise investment returns consistent with the first two aims.

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

6.3 The PCC's risk appetite can be characterised as follows:

- the PCC looks to invest in banks and building societies of a high credit quality and sets lending limits against each one;
- lending to other Local Authorities and Public Bodies can be undertaken;
- the PCC may lend to the Debt Management Office (central government), this lending is seen as having the highest level of security;
- the PCC may use Treasury Bills and Certificates of Deposit;
- the PCC may invest in money market funds and enhanced money market fund with a AAA credit rating;

6.4 The PCC has two different mechanisms for investing surplus funds:

- The PCC's Investment Fund managed by the Treasurer - this fund is invested solely in fixed interest deposits. The remit of the fund is contained at Appendix 2

- Very short term deposits varying from overnight to 3 months which are used to facilitate short term cash management.

- 6.5 Prior to January 2014 the PCC used a cash fund manager to invest a portion of the PCC's cash balances. This managed fund has been wound up following a period of poor performance and the cash and investments have been transferred to the PCC's Investment Fund. It is important that the transfer of funds does not lead to an over concentration of investment in any one organisation or sector. For this reason the counter party list has been expanded by adding a number of banks outside the UK and the euro-zone. In addition £10m has been deposited with other local authorities.
- 6.6 The externally managed fund held UK gilts with a nominal value of £1.8m. This holding has been transferred to the PCC's custodian King and Shaxson and becomes part of the PCC's Investment Fund. This has necessitated a change to the PCC's investment strategy to recognise the gilt holding. It should be noted that this holding is an exception to the overall strategy and the PCC will not in normal circumstances invest in UK gilts. The strategy in relation to the gilt holding is set out in paragraph 6.24 below.
- 6.7 The closure of the externally managed fund and also the low level of return currently available for fixed term deposits has led to the consideration of a number of alternative investment approaches. The options have been discussed with the PCC's advisers and a number of options are set out in Appendix 5. It can be seen that the option of seeking an alternative cash fund manager with a similar mandate to the previous fund manager has been deferred for the time being as market conditions are not favourable to this approach. A number of the other alternatives have also been set aside either because they do not meet the PCC's risk criteria or they are only suitable for relatively long term deposits and the PCC's future cash flow profile does not provide a sufficient degree of certainty for long term deposits.
- 6.8 The options of using either a property fund or a corporate bond fund require more detailed investigation and whilst they have not been rejected they are not included in the strategy at present.

Investment Strategy Principles

- 6.9 It should be borne in mind that it would be impossible for the PCC to mitigate all of the possible risks inherent in investing cash balances. Further economic or banking problems could impact on the security or returns achieved from the investment strategy.
- 6.10 In exceptional circumstances, the Treasurer will be empowered to invest in foreign currencies but only with the explicit approval of the PCC.
- 6.11 The investment strategy for the PCC Investment Fund is set out in Appendix 2. The investment fund will hold all internally managed cash investments with durations of more than 100 days. Short term deposits of less than 100 days will be managed separately. Specifically the performance benchmark of 3 month

LIBID will not apply to short term deposits. Also short term deposits do not require approval from the Treasurer as set out in Treasury Management Practices.

Creditworthiness Policy

- 6.12 The PCC will utilise a creditworthiness policy that:
- i. fully accounts for the ratings and outlook watches published by all three ratings agencies with a full understanding of what they reflect in the eyes of each agency
 - ii. recognises that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate
 - iii. takes account of information that reflects the opinion of the market, such as “Credit Default Swaps”
 - iv. Uses other information sources, for example, the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties
- 6.13 To comply with the above the PCC will utilise the creditworthiness service supplied by Capita Assets Services which meets all of the requirements set out above. When using this service the PCC will be aware that the ultimate responsibility for ensuring the creditworthiness of counterparties will lie with the PCC.
- 6.14 For ease of reference the Capita Assets Services approach uses colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the PCC to determine the duration for investments. The PCC will therefore use counterparties within the durational bands set out in table 9.

Table 9

Yellow	5 years *
Dark Pink	5 Years **
Light Pink	5 Years ***
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No Colour	not to be used

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

** This category is for enhanced money market funds with a credit score of 1.25

*** This category is for enhanced money market funds with a credit score of 1.5

- 6.15 The PCC has determined that he will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are

shown in Appendix 6. This list will be added to, or deducted from by officers should ratings change in accordance with this policy.

- 6.16 If Barclays, the PCC's bankers, are removed from the Capita Asset Services list the threshold for new deposits will be reduced to £250,000 to allow the current account to operate in the short term. When using durational bands set out above the PCC will also apply credit limits as set out in table 10 below. For overnight deposits reference will be made to credit ratings if a counter party moves into the no colour band. The proposed counter party list is set out in Appendix 7.

Table 10

Counterparty Limits Investment Fund and Short Term cash Deposits

Counterparty type	Minimum Credit Criteria/ Colour Band			Credit Limit
Banks				
Term Deposits with UK and Foreign Banks	Green			£12m
Overnight deposits UK and Foreign Banks	Fitch	Moodys	Standard and Poors	
	A	A2	A	
Building Societies				
UK Building Societies	Green			£4m
Public Bodies				
Central Government				
Debt Management Office (credit criteria relates to UK sovereign rating)	AA+			No limit
Local Government				
All Local Authorities, Fire Authorities and Police and Crime Commissioners	N/A			£5m
Money Market Funds including enhanced money market funds	AAA			£10m

- 6.17 The approved list of counterparties is formally reviewed at least weekly. Notification of credit rating downgrades (or other market intelligence) is acted upon immediately, resulting in any further lending being suspended.
- 6.18 All additions, to the approved counterparty list will be approved by the Treasurer.
- 6.19 The DCLG classifies investments as either specified or non-specified. Specified investments are lower risk whereas non-specified investments are higher risk. To be a specified investment an investment must be:
- Sterling denominated
 - For less than 365 days
 - Be of high credit quality
 - not deemed to be capital expenditure

6.20 Appendix 3 sets out the PCC's investments and classifies them according to whether they are specified or non-specified investments. No more £20m or 50% of the overall portfolio whichever is the lower will be invested in non-specified investments.

Investment Return Expectations

6.21 Capita Asset Services have provided a detailed forecast for Bank of England (BoE) bank rate and market rates which is provided in Appendix 4. The BoE bank rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2015. BoE bank rate forecasts for financial year ends (March) are:

- 2014-15 0.50%
- 2015-16 0.75%
- 2016-17 1.75%

6.22 The rates used to calculate the interest receipts budget are as contained in table 11 below.

Table 11

Forecast Rates for Budget Purposes (Interest receipts)	Average %			
	14-15	15-16	16-17	17-18
Short Term Cash	0.5	0.5	0.9	1.2
Devon and Cornwall Police Investment Fund	0.7	0.7	1.2	1.5

6.23 The economic data and commentary that underpins these forecasts is provided in Appendix 8. If the economy were to recover more quickly than Capita Asset Services' forecast then the investment returns would be higher than included in the Medium Term Financial Strategy. Conversely if the pace of economic recovery is slower than forecast then returns, particularly in the later years of the Medium Term Financial Strategy, will be lower than forecast.

Gilt Holding

6.24 As described in paragraph 6.6 above, UK gilts with a nominal value of £1.8m and a maturity date of 22/07/2018 were transferred to the PCC's Investment Fund on the closure of the externally managed fund. As of the date of this report an unrealised capital loss of approximately £34,000 has been incurred on this holding which is a net loss of £20,000 after taking into account accrued interest. The options for this investment are:

- I. to sell the holding thus incurring a net loss
- II. to hold the investment to maturity – this option yields 1.25% per annum until July 2018 and this is above the Capita market forecasts until September 2016
- III. or set a target sale price that would produce a net return in line with the return achieved using the PCC's current investment strategy.

A significant increase in the gilt price would be required before the target sale price is achieved. It is proposed that the PCC continue to hold the gilt and the

price is monitored so that if the target sale price is achieved the Treasurer can make the decision as to whether the gilt should be sold.

Performance

- 6.25 The benchmark for performance on the Investment fund will be the 3 month LIBID (London Interbank Bid Rate); this is a more challenging target than that used in previous year (7 day LIBID).

Investment Treasury Indicator

- 6.26 **Upper limit for principal sums invested for period of over 364 days.**

This indicator sets a limit on the level of investments that are held for more than 364 days.

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

Police and Crime Commissioner's Investment Fund - no more than the lesser of £20m or 50% of the Investment Fund may be invested for more than 364 days

The total for forecast investments as at 31 March 2014 is £40m

Limits on investments to mature beyond:

31 March 2015 £20.0m
31 March 2016 £10.0m
31 March 2017 £1.8m

7.0 Monitoring & Benchmarking

- 7.1 Income and expenditure will be monitored monthly to ascertain performance against the budget. Performance and changes in borrowing and lending will be reported regularly to the Commissioner's Management Team.
- 7.2 During 2014-15 the PCC will participate in the Capita Asset Services benchmarking club. The aim of this benchmarking will be to determine, whether, given the risk appetite of the PCC the rate of return on internally managed funds has been maximised.

8 Governance Structure

- 8.1 The governance arrangements for the Treasury Management Strategy are set out in Appendix 8. This strategy will be considered by the Joint Audit Committee before it is presented to the Commissioner's Management Team for approval.

9 Banking Arrangements

- 9.1 The Commissioner's bankers are Barclays PLC. In December 2013 Commissioner's Management Team approved an extension of the current contract for one year until 31 March 2015.

10 Treasury Management Consultants

- 10.1 The PCC uses Capita Asset Services as its external treasury management advisors.
- 10.2 The PCC recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers. The PCC also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The PCC will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

11.0 Conclusion

- 11.1 The continuation of the low bank rate of 0.5% and the operation of the Bank of England's "Funding for Lending Scheme" means that forecast interest returns from investments for 2014-15 are lower than for 2013-14. Returns on investments are expected to continue at this low level in 2015-16 and start to rise in 2016-17. The nature of the PCC's debt means that no rescheduling or repayment is possible. During the year relative interest rates will be monitored and modelling will be undertaken to determine the most advantageous strategy for the PCC in terms of external borrowing.
- 11.2 The Treasury Management Strategy has been reviewed by the treasury management advisers, Capita Asset Services, and their view is; that it complies with all the legislative requirements and is sound in terms of the current and forecast interest rates.
- 11.3 This Strategy is compliant with all the relevant statutory and regulatory requirements including; the CIPFA Code of Practice on Treasury Management, the CIPFA Prudential Code, the Local Government Act 2003 and the Department for Communities and Local Government investment guidance.

Appendices

- 1 MRP Policy
- 2 Objectives of the PCC's Investment Fund
- 3 Interest Rate Forecasts
- 4 Alternative Investment Strategies
- 5 Countries Approved for Investment
- 6 Police and Crime Commissioner for Devon and Cornwall - Approved List of Borrowers
- 7 Economic Background
- 8 Treasury Management Governance Arrangements
 - Role of the PCC Senior Management Team
 - Role of the Joint Audit Committee
 - The treasury management role of Treasurer (the section 151 officer)
- 9 External Borrowing

Minimum Revenue Provision Policy Statement 2013-14

DCLG Regulations have been issued which require The Police and Crime Commissioner to approve **an MRP Statement** in advance of each year.. The Commissioner is recommended to approve the following MRP Statement

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

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

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

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

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

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

Devon and Cornwall PCC's Investment Fund

Purpose

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

Investment Strategy

1. Funds may be invested in:
 - fixed interest deposits with UK and Overseas banks and UK building societies;
 - the Debt Management Account Deposit Facility provided by central government;
 - pooled money market funds with either a constant net asset value or a variable net asset value;
 - certificates of deposit

A more detailed definition of approved investment is provided in Annex 3.

2. All investment to be with countries with a sovereign rating of AA- or above. Banks with a UK banking licence will be deemed to be rated according to the UK sovereign rating.
3. Funds to be invested only with counterparties on the approved list.
4. The fund will not invest directly in government bonds, foreign currency or international bonds. The exception to this being the investment in UK government gilts transferred to the Devon and Cornwall Investment Fund following the winding up of segregated fund managed by the external investment manager.
6. Investments for more than one year are classified as non-specified investments. A limit of £20m or 50% of the overall portfolio will be placed on the amount of the fund that can be invested for a period of more than 1 year.
7. The benchmark for performance will be the 3 months LIBID (London Inter Bank Bid Rate).
8. Investment decisions within the policy will be taken by the Treasurer.

Specified and Non Specified Investments

Specified Investments	Non Specified Investments
Term deposits with banks and building societies for 365 days or less duration – minimum credit criteria green	Term deposits with banks and building societies for more than 365 days duration – minimum credit criteria green
Certificates of deposit for 365 days or less duration – minimum credit criteria green	
Term deposits with other local authorities for 365 days or less duration	Term deposits with other local authorities for 365 days or more duration
Money Market Funds – with a credit rating of AAA	
Enhanced money market funds – with a credit rating of AAA	
UK government gilts	

Capita Asset Services Interest Rate Forecasts

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2014	0.50	2.60	4.40	4.40
Jun 2014	0.50	2.60	4.40	4.50
Sep 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.80	4.60	4.60
Mar 2015	0.50	2.90	4.70	4.70
Jun 2015	0.50	2.90	4.70	4.80
Sep 2015	0.50	3.00	4.80	4.90
Dec 2015	0.75	3.10	4.90	5.00
Mar 2016	0.75	3.20	5.00	5.10
Jun 2016	1.00	3.20	5.00	5.10
Sep 2016	1.25	3.30	5.10	5.10
Dec 2016	1.50	3.40	5.10	5.20
Mar 2017	1.75	3.50	5.10	5.20

Alternative Investments

Type of Investment	Comments
Cash Fund Managers	Managers with cash/gilt mandates similar to the previous external fund manager find it difficult to provide good returns in the current market environment and for this reason it is not appropriate to seek an alternative cash fund manager.
Enhanced Cash Funds – these are similar to money market fund but the underlying deposits have a longer duration. As a result the value of the investment is more likely to vary as compared to money market funds but under certain conditions the returns can be higher than money market funds	These funds were approved for use in 2013-14 however market conditions have not been favourable and they have not been used. They have been included on the list of approved instrument and may be used in future if market conditions improve.
Exchange Traded Funds – are investment funds traded on stock exchanges, much like equities.	The value of these investments can go up or down dependent on market conditions. For this reason they are not appropriate for short term investments due to the level of risk. As the PCC's cash position cannot be forecast with certainty over the medium to long term and therefore these are not appropriate investments.
Equities	As exchange traded funds above.
Property funds	The value of property fund investments can go up or down dependent on market conditions. In addition there can be high entrance and exit costs. For this reason they must be seen as a medium to long term investment.
Corporate Bonds – longer dated instruments issued by financials and non-financial corporate bodies	These instruments can have higher returns than other investments, however the value of bonds can go up and down. The level of risk inherent in investing in individual corporate bonds does not match the PCC's investment strategy of putting security and liquidity before yield.
Corporate Bond Funds – invest in corporate bonds but diversify the risk by investing in a wide range of corporate bonds.	Corporate bond funds may be an appropriate investment for the PCC however more investigation is required particularly in terms of whether the funds meet legislative requirements in terms of use of derivatives.

Countries Approved for Investment

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Hong Kong
- Netherlands
- U.S.A.
- UK

AA

- Abu Dhabi (UAE)
- France
- Qatar

AA-

- Belgium
- Saudi Arabia

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

		DCPA Lending Limits		Capita Asset Services Classification
		Counterparty £ millions	Group Limit	
1	CLEARING BANKS & SUBSIDIARIES (GROUP Limit £) (term deposits and certificate of deposits)			
	BARCLAYS BANK-			Overnight Deposits only
	FIBCA Account	12 *	12.25	
	Current Account	0.25	12.25	
	HSBC BANK	10	10	Orange
	LLOYDS BANKING GROUP	12	12	Blue
	ROYAL BANK OF SCOTLAND	12	12	Blue
	SANTANDER	12	12	Green
	STANDARD CHARTERED	10	10	Red
	NORDEA FINLAND	10	10	Red
	SVENSKA HANDELSBANKEN	12	12	Green
	TORONTO DOMINION BANK	12	12	Purple
	DEUTSCHE BANK	12	12	Green
	RABOBANK	12	12	Red
	NATIONAL AUSTRALIA BANK	12	12	Red
	GOLDMAN SACHS INTERNATIONAL BANK	12	12	Red
	* See Voluntary operational limits below			
2.	BUILDING SOCIETIES			
	NATIONWIDE	4	4	Green
3.	LOCAL AUTHORITIES	5	5	Yellow *
4.	DEBT MANAGEMENT ACCOUNT (CENTRAL GOVERNMENT)			
	DMA Deposit Facility (DMADF)	Unlimited		Yellow
	Treasury Bills	Unlimited		Yellow
5.	MONEY MARKET FUNDS			N/A
	IGNIS – Sterling Liquidity 2			N/A
	IGNIS – Short Duration Fund	10		Pink
	Prime Rate – Sterling Liquidity Share Class 4			N/A
	Prime Rate – Cash Plus Fund	10		Pink

Key to Sector Classification

Colour	Maximum Length of Deposit
Yellow	Up to 5 years
Purple	Up to 2 years
Blue	Up to 1 year
Orange	Up to 1 year
Red	Up to 6 months
Green	Up to 3 months
Pink	To be used after agreement from a TM meeting
* - Not classified by Capita Asset Services	Up to 1 year

Economic Background

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are also currently very positive in indicating that growth prospects are strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- As for the Eurozone, concerns have subsided considerably in 2013. However, sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2014/15 and beyond;
- Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.
-

Treasury Management Governance Arrangements

The Commissioner Management Team is responsible for:

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

The Joint Audit Committee is responsible for:

- scrutinising the treasury management policy and procedures and making recommendations to the PCC Senior Management Team

The Treasurer is responsible for:

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

Police and Crime Commissioner for Devon and Cornwall - External Borrowing

Lender	Term Years	Maturity Date	Amount Borrowed £	Period Outstanding as at 31/3/2014 Years
PWLB	5	03/05/2014	2,000,000	0.09
PWLB	8	02/11/2016	4,500,000	2.60
PWLB	15	01/10/2025	2,000,000	11.52
PWLB	26	03/05/2029	1,697,070	15.10
PWLB	26	03/05/2029	168,930	15.10
PWLB	26	03/05/2029	461,600	15.10
PWLB	26	03/11/2029	2,000,000	15.61
PWLB	20	01/10/2030	2,000,000	16.52
PWLB	26	23/11/2030	2,500,000	16.66
PWLB	25	16/12/2034	2,500,000	20.73
PWLB	31	03/05/2036	6,200,000	22.11
PWLB	31	23/11/2036	2,000,000	22.67
PWLB	30	03/05/2037	4,750,000	23.11
			<u>32,777,600</u>	