

To: Cambridgeshire Police Authority

From: Treasurer and Chief Constable

Date: 11th February 2010

BUDGET PROPOSALS 2010/11 AND FORECASTS 2011/12, 2012/13

1. Purpose

- 1.1 To finalise the revenue budget for 2010/11 and determine the precept and council tax. To note the financial prospects for the medium term.

2. Background

- 2.1 The Authority received a report on the progress with preparing the budget for 2010/11 at its meeting on the 21st December 2009. Finance and Resources Committee discussed the final iteration of the budget at its meeting on the 20th January 2010 and agreed to recommend a budget increase of 3.1% and a council tax increase of 3%.
- 2.2 The Authority's Medium Term Financial Plan and the 2010/11 budget has, throughout the process, been predicated on a council tax increase of 3% for 2010/11 and the Chief Constable has been able to deliver a balanced budget at this level.
- 2.3 The Finance and Resources Committee was aware that final taxbase figures and surpluses/losses on Collection Funds had not been notified by District and City Councils. This information was received on 29th January 2010.
- 2.4 The increase in the tax base is higher than estimated (surprising given the recession and house building downturn), overall a 1.22% increase, compared to a 0.5% assumption. This generates £331k in additional precept assuming a 3% increase in council tax. In addition the Authority's share of surpluses on Collection Funds is £153k (one off).
- 2.5 Taken together, this amounts to additional income of £484k in 2010/11 and the Chief Constable has asked that this be used to make a revenue contribution to capital financing. Given the pressures in this area (as discussed at Agenda Item 6), this would be prudent.
- 2.6 The additional £484k gives a budget increase of 3.5%. The change, budget to budget, is summarised in Table 1 below and is set out in detail in Appendix 1.

Table 1: Budget Changes 2009/10 to 2010/11

	£m	% increase budget to budget
Budget 2009/10	125.6	
Add:-		
Base Pressures (pay awards, increments, employers' pension costs, inflation, capital financing)	6.5	5.2%
Budget Growth (Appendix 2)	1.1	0.9%
Less:-		
Savings/Efficiencies	-3.2	-2.5%
Net Revenue Expenditure	130.0	3.5%
Transfer to Reserves	-	
Budget 2009/10	130.0	3.5%

- 2.7 The 2010/11 budget is presented and balanced on the basis of a 2.95% increase in the Band D council tax (the Band D tax must be divisible by 9 to exactly 2 decimal places):-

Table 2: Band D proposed increase

	Band D
2009/10	£164.70
2010/11	£169.56
Increase per annum	£4.86
Increase per week	9p

- 2.8 Appendix 2 is an extract of Section 3 'Budget Detail' of the report to the last meeting of the Finance and Resources Committee. The Authority is asked to note that the budget provides for:-

- 1,404 police officer posts (36 above the 'Crime Fighting Fund floor' of 1,368)
- 195 Police Community Support Officers
- 1,022 police staff posts, an increase of 34 over the current year, 25 of which are posts previously funded from the capital account
- A reduction of £0.5m in the police officer overtime budget.

- 2.9 The share of the precept to be paid by each district/city council is set out in Appendix 3.

3. Financing

- 3.1 On the 20th January 2010 the Government confirmed the Provisional Grant Settlement for 2010/11 (third and final year) with no changes.

- 3.2 For this Authority the three year Grant Settlement has provided for increases of 3% year on year for the CSR period. This is above the average overall increase of 2.7%.

- 3.3 To stabilise funding for the police service the government has again applied minimum 'floor' increases. The floor is set at 2.5% for all police authorities, with those above the floor having to pay for those below it. This Authority (which is above the floor) has again 'lost' £2.7m (year on year) in formula grant. This situation has pertained every year since 2003/04 and the cumulative loss since then is £18.6m (average loss £2.3m per annum).
- 3.4 Total financing available for 2010/11 (and the forecasts for the two following years), are set out in rows 24 to 26 of Appendix 1.
- 3.5 The forecasts presented in Appendix 1 provide for a 2.3% increase in Net Revenue Expenditure in 2011/12 and 2.6% in 2012/13. More information on the medium term prospects are set out in Section 9.

4. Use of Reserves

- 4.1 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Treasurer) to report on the adequacy of the proposed financial reserves as part of budget setting considerations.
- 4.2 Table 3 below sets out the Authority's reserves including estimated movements in 2009/10 and 2010/11. The Treasurer presented a full report on Reserves in February 2009 and there has been no material change to circumstances or additional reserves created.

Table 3: Reserves

	Note	Balance 31 March 2009 £'000	Estimated Movements £'000	Balance 01 April 2010 £'000	Estimated Movements £'000	Balance 01 April 2011 £'000
General Reserve		4,599		4,599		4,599
Insurance Reserve	1	766		766		766
Carry Forward Underspending Reserve	2	1,175	-550	625	-200	425
Innovation Reserve	3	640	-100	540	-200	340
Ill-Health Reserve	4	500	-100	400		400
Major Capital Projects Reserve		2,842		2,842		2,842
Operational Maintenance Reserve		500		500		500
Workforce Development Reserve		127		127		127
Recruitment Reserve	5	550	-78	472	-78	394
Total Earmarked Reserves		7,100	-828	6,272	-478	5,794
Total Reserves		11,699	-828	10,871	-478	10,393

1. The total held for insurance liabilities is £2.6m, the balance is held as a Provision in accordance with accounting codes of practice
2. Reduction in Carry Forward over time due to improved accounting treatments
3. Used for start up costs of collaboration work
4. Ill health retirement - police staff
5. Employment of police officer training assessors (one year contract)

- 4.3 Reserves are not required to support the 2010/11 budget but in the event that the Authority has to reduce its budget rapidly in 2011/12, reserves could help bridge the gap until savings can be secured.

- 4.4 The Authority has transferred any available underspends to the Major Capital Project Reserve in view of the Parkside scheme.
- 4.5 The Authority maintains a policy of retaining a General Reserve in the range of 2% to 4% of Net Expenditure.

5. Robustness of estimates

- 5.1 Under Section 25 of the Local Government Act 2003, the Chief Financial Officer (Treasurer) of the Authority is also required to report on the robustness of the estimates made for the purposes of the budget calculations.
- 5.3 The budget has been prepared in accordance with traditional methodologies used in previous years. All employee budgets (representing over 80% of the net budget) have been calculated on a post by post basis. Proposals for growth and reductions (including additional staff) have been discussed at Force Executive Board and were considered by the Finance and Resources Committee on 20th January 2010 (details at Appendix 2).
- 5.4 Budget holders have been actively engaged in 2010/11 budget preparation as very tight cash limits were issued to them by the Director of Finance and Resources. Working through a series of Star Chamber exercises, it has been possible for the Chief Constable to prepare a balanced budget.
- 5.6 The budget also allows for underlying spending patterns in the current financial year, for example the increasing cost of interpreters.
- 5.7 The Authority's arrangements for budget monitoring are tried and tested and the Constabulary has continued to further improve budgetary control processes.

6. Capital Financing

- 6.1 As reported in the earlier Item, the Authority has revenue pressures from the capital programme. These pressures will persist whilst borrowing is necessary to finance the capital programme.
- 6.2 Capital Financing costs are shown at row 15 of Appendix 1. The increases in 2011/12 (+£0.9m) and 2012/13 (+£1.2m) arise from a larger capital programme. These costs are, in effect, unfunded at this time and form part of the budget gap for those years (row 23).

7. Treasury Management Strategy and Prudential Indicators

- 7.1 The Finance and Resources Committee considered the above at its meeting on 20th January 2009 and agreed to recommend to the Authority approval of the Treasury Management Strategy for 2010/11 and the Prudential Indicators, in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance.

- 7.2 The Treasury Management Strategy for 2010/11 is set out at Appendix 4.
- 7.3 The Prudential Indicators presented to the Committee on 20th January 2010 assumed that the whole Capital Programme would be approved and members were advised that the various indicators could be approved on the basis that they were 'envelopes' or maximum amounts that should not be exceeded.
- 7.4 On reflection it is more appropriate for the Authority to approve revised Indicators which exclude, for the moment, expenditure and capital financing costs of the Parkside scheme. These are attached at Appendix 5.

8 Consultation, Council Tax and Capping

- 8.1 The Authority has been able to make a presentation (including budget considerations) at 24 meetings across the county and in Peterborough over the last 6 weeks. The returned questionnaires are now being analysed and the results will be reported orally at the meeting.
- 8.2 What is clear so far is that citizens value their police service and are surprised at the low level of funding. There has not been one objection to the possibility that the Authority could increase council tax by 3%.
- 8.3 The Government has been consistent in its expectation that increases in 2010/11 will be low. The Minister, Barbara Follett MP, wrote to Leaders of all local authorities in December 2009, the following is an extract,

"As I said in my statement to the House of Commons, I am pleased that the average Band D council tax increase this year was 3 per cent. The Government anticipates this amount to fall further in 2010-11 whilst authorities protect and improve front line services. In fact, we expect the average Band D council tax increase in England to achieve a 16 year low in 2010-11. The Government remains prepared to take capping action against excessive increases by authorities and to require them to rebill households for a lower council tax if necessary."

- 8.4 The latest information available from the Police Authority Treasurers' Society is that the 33 Shire Police Authorities in England will set Band D tax at an average of 2.92% and budget increases of 2.9%.
- 8.5 Warwickshire was 'designated' in the current year and has been capped at 3% in 2010/11.
- 8.6 If the Authority was capped and council tax payers had to be re-billed, the cost to the Authority would be around £0.5m and the budget would have to be reduced.

9. The Medium Term Prospects (April 2011 and beyond)

- 9.1 2010/11 marks the end of the 3 year CSR07 period. The financial situation beyond April 2011 is unclear. A general election will take place in May/June and at some point after that the wider public sector will learn its fate. It could be as late as November/December 2010 that local authorities are given an indication of their funding for 2011/12.
- 9.2 If a Labour government was re-elected it could be assumed that the Police Service would be afforded some level of protection, as set out in the Chancellor's Pre Budget Report (PBR).
- 9.3 However, the PBR requires the service to make savings of £545m nationally (on overtime, back office services, procurement and IT).
- 9.4 The current assumptions for 2011/12 and 2012/13 are set out on Appendix 1, basically 0% grant increases, 2% council tax increases and 1% for pay awards.
- 9.5 In crude terms if the £545m is taken out of existing grant pot the effect would be a 2% reduction in grant (around £1.6m for this Authority).
- 9.6 As reported to Finance and Resources Committee the Chief Constable has set up a Budget Task Group to carefully consider options for reductions post April 2011. It will be important for the Authority to consider these options and allow sufficient time to discuss them balanced against a possible need to take quick decisions on reductions which may take a while to deliver.

10. Recommendations

The Authority is recommended to:-

- 10.1 Approve the Net Budget Requirement (Appendix 1 row 21), of £129,992,338.
- 10.2 Approve the precept of £46,338,629 (Appendix 1 row 25) to be levied on the District Councils and to be received in 10 equal instalments in accordance with the 'fall-back' provisions of the Local Authorities (Funds) (England) (Amendment) Regulations 1995. (Details set out in Appendix 5).
- 10.3 Approve the Council Tax for each Band of property, based on the number of Band D equivalent properties notified to the Authority by the City/District Councils (273,287.5):-

Band	Council Tax	Band	Council Tax
A	£113.04	E	£207.24
B	£131.88	F	£244.92
C	£150.72	G	£282.60
D	£169.56	H	£339.12

- 10.4 Approve the Treasury Management Policy as recommended by Finance and Resources Committee as set out in Appendix 4.
- 10.5 Approve the revised Prudential and Treasury Management Indicators as set out in Appendix 5

BIBLIOGRAPHY

Source Document (s)	Contact Officer	Location
Budget Report Police Authority Agenda 13 th February 2009 Finance and Resources Committee Agenda 20 th January 2010	John Hummersone Treasurer john@hummersoneconsulting.co.uk (01638) 667090 Niki Howard - Director of Finance and Resources Niki.howard@cambs.pnn.police.uk (01480) 422705 07736342334	Cambridgeshire Constabulary, Hinchbrooke Park, Huntingdon, Cambs, PE29 6NP.

Originating Officer: John Hummersone, Treasurer.

Is it considered that this report contains 'exempt information' and should be considered in private? No

If the answer is "YES", please state the nature of the exempt information **and the relevant clause(s)** in Part 1 of Revised Schedule 12A to the Local Government Act 1972

.....

The attached report has been cleared with the undermentioned officers: (delete as appropriate)

Chief Constable/Chief Executive

Others

Submitted on29th January 2010

A report will not be sent to the Authority unless this box has been satisfactorily completed and all necessary consultation carried out - the responsibility for which rests with the originator (except for consultation with the Chairman and this will be undertaken by the Chief Executive).

Cambridgeshire Police Authority Budget 2010/11 and Medium Term Forecasts

	Ref	Budget 2009/10 £'000	Estimate 2010/11 £'000	Incr %	Forecast 2011/12 £'000	Forecast 2012/13 £'000
Police Officer Pay & Allowances	1	55,643	57,539	3.4	58,558	59,141
Police Officer Overtime	2	3,017	2,500	-17.1	2,525	2,550
PCSO Costs (net of funding)	3	2,076	1,958	-5.7	2,006	2,097
Police Staff	4	30,979	31,799	2.6	32,909	33,723
Police Staff Overtime	5	222	232	4.3	236	238
Training	6	1,344	1,005	-25.2	1,015	1,025
Other Employee Expenses	7	434	162	-62.6	164	166
Police Pensions	8	14,395	14,822	3.0	15,225	15,656
Total Employee Costs	9	108,110	110,017	1.8	112,638	114,597
Premises Costs	10	4,186	4,532	8.3	4,578	4,623
Transport Costs	11	2,054	2,042	-0.6	2,063	2,083
Supplies & Services	12	19,278	17,797	-7.7	17,417	17,591
Capital Financing Costs	13	1,459	2,927	100.7	3,834	5,074
Revenue Contribution to Capital	14	-	484	100.0	331	331
GROSS REVENUE EXPENDITURE	15	135,088	137,800	2.0	140,860	144,299
Grant Income	16	-5,782	-5,334	-7.7	-5,386	-5,386
Other Income	17	-2,530	-2,473	-2.2	-2,498	-2,523
Total Income	18	-8,312	-7,808	-6.1	-7,884	-7,909
NET REVENUE EXPENDITURE	19	126,776	129,992	2.5	132,977	136,390
Contributions +To / - From Reserves	20	-1,169				
NET BUDGET REQUIREMENT (NBR)	21	125,606	129,992	3.5	132,977	136,390
Budget Increase Year on Year	22		3.5%		2.3%	2.6%
BUDGET GAP	23	-	-		-1,974	-4,195
Financed by:						
Total Formula Grant	24	81,043	83,501		83,501	83,501
Precept	25	44,466	46,339		47,502	48,694
Collection Fund - Deficit / +Surplus	26	97	153		-	-
TOTAL FINANCING	27	125,606	129,992		131,003	132,195
Band D Council Tax £	28	£164.70	£169.56		£172.95	£176.41
KEY ASSUMPTIONS						
Council Tax base increases						
Actual	29		1.22%			
Forecast	30				0.50%	0.50%
Council Tax Band D increases	31	4.99%	2.95%		2.00%	2.00%
Taxbase	32	269,984	273,288		274,654	276,027
Grant increase	33		3.03%		0.00%	0.00%
Police officer pay rise (w.e.f 01/09)	34		2.55%		1.00%	1.00%
Police staff pay rise (w.e.f. 01/9)	35		2.58%		1.00%	1.00%
General Inflation	36				1.00%	1.00%

NB above figures may not cast exactly due to roundings.

**Finance and Resources Committee 20th January 2010
Extract from Budget Report...**

3. Budget Detail

The Budget for 2010/11 and Forecasts for 2011/12 and 2012/13 are shown at Appendix 1. A 2.95% council tax increase has been assumed at this stage for 2010/11 and 2% for 2011/12 and 2012/13. Reasons for the main budget to budget (2009/10 to 2010/11) changes are set out below:

Police Officers

- 3.1 Forecasts tabled in the 2009/10 budget setting process indicated a police officer establishment of 1,427 at 1st April 2010. It was also reported that budget holders were able to take advantage of the flexibility granted to them and deploy additional resource as police staff, staff in newly civilianised roles or other human resource. In the event, the 2010/11 budget is based on an agreed establishment of 1,404 reflecting, inter alia, a number of civilianised financial investigator posts.
- 3.2 The Committee is asked to note that the proposed establishment exceeds the 2008/09 "Crime Fighting Fund floor" of 1,368 by 36 posts.
- 3.3 The police officer budget reflects the final rise (2.55%) of the previously confirmed 3 year pay award. Increases of 1% have been forecast for 2011/12 and 2012/13. The cost of an additional 1% on the police officer pay bill is approximately £0.6m in a full year.

Police Officer Overtime

- 3.4 Provision for police officer overtime has been reduced again – for 2010/11 by £0.5m – reflecting continuing efforts to contain costs and ensure value for money in police officer deployment.

Finance and Resources Committee 20th January 2010
Extract from Budget Report... contd.

Police Staff

- 3.5 Police Staff budgets are based on an establishment of 1,021.7 fte posts reduced by a vacancy factor of 1%. A department by department analysis is set out below:

	2010/11 fte	2009/10 fte	Change fte
Safer Communities	229.4	223.7	5.7
Investigations	268.4	282.9	-14.5
Northern	63.4	60.2	3.2
Southern	70.8	61.5	9.3
Central	63.6	63.8	-0.2
ACPO/ Strategic Development / QAT	33.3	33.3	0.0
Corporate Communications	14.0	14.4	-0.4
Professional Standards Department	10.6	10.5	0.1
ICT	80.8	47.7	33.1
Fleet	21.0	21.0	0.0
Estates	25.7	21.7	4.0
HR	42.5	43.4	-0.9
Learning & Development	25.5	27.8	-2.3
Management of Police Information	30.2	31.4	-1.2
Finance	32.6	34.7	-2.1
Police Authority	8.0	8.0	0.0
Corporate	2.0	2.0	0.0
Total	1,021.7	988.0	33.7

- 3.6 The principal changes over the prior year relate to 24.6 posts in ICT previously funded from the capital account, 7 civilianised and 1 growth post in Southern, growth in the Estates establishment required to service the enlarged estate and a saving of 14.5 posts identified in the Investigations Directorate.
- 3.7 All growth posts have been accommodated within the pre-defined cash limits (see para. 1.10 above).
- 3.8 The pay award for Police Staff has also been agreed and is included in the draft budget. Pay rises are 2.6% for 2009/10 and 2.58% for 2010/11. The cost of an additional 1% on the Police Staff paybill is approximately £0.3m in a full year.

Training

- 3.9 The Training budget has decreased by 25% to £1.0m because there is a reduced provision for Citizen Focus training.

Police Pensions

- 3.10 Police Pensions comprise the Authority's (employer's) contribution to the Police Pension Fund which is currently set at 24.2% of serving Police Officer salaries, and the cost of ill-health and injury awards. Police Pension costs are forecast to rise broadly in line with Police Officer pay.

Premises

- 3.11 Budgeted premises costs have increased by 8.3% reflecting the revenue consequences of capital investment in prior years – principally Copse Court, Chord Park, Monks Wood and Cambourne. Additionally, budgetary provision reflects continuing pressure from increasing utility costs.

Supplies and Services

- 3.12 Provision for supplies and services has fallen by some £2.4m following a rigorous round of scrutiny and challenge as part of the Star Chamber process (para. 1.10 above) with budget holders identifying a range of savings and efficiencies in order to produce a balanced budget proposal.

Finance and Resources Committee 20th January 2010
Extract from Budget Report... contd.

Analysis of the principal savings identified and budget pressures accommodated in closing the budget gap

	£'000
Original Budget Gap reported to Finance and Resources Committee 14th December 2009	-1,101
Reduction in Band D increase to 2.95%	-22
Restated Budget Gap	<u>-1,123</u>
Supplies & Services	
Reductions / efficiencies:	
ITC services and equipment	-842
Forensic	-270
Clothing & uniform	-265
Insurances & risk management	-263
Subscriptions	-187
Consultants	-181
Other savings <£50k	<u>-130</u>
Increases / budget pressures:	-2,137
Contributions - Partnerships	224
Interpreters fees	210
ACPO initiatives	<u>166</u>
	600
Total reduction in Supplies & Services:	-1,538
Other budget reductions:	
Training - efficiencies	-328
PCSO Costs - BCU funding confirmed in provisional settlement	-293
Police pensions - reduction in forecast costs	-235
Other movements <£50k	<u>-112</u>
	-967
Other increases / budget pressures:	
Capital financing costs	722
Grant income shortfall	292
Premises costs	266
Police staff	<u>101</u>
	1,382
Net budget reductions	<u>-1,123</u>

Finance and Resources Committee 20th January 2010
Extract from Budget Report... contd.

Growth / Budget Pressures accommodated through the Star Chamber Process

	£'000	£'000
ICT		
On call payments	60	
Specials System	<u>2</u>	
		62
Safer Communities		
Enquiry Office supervisors	60	
Helicopter Pilotage	34	
Rogue Trader Initiative - continued support	<u>10</u>	
		104
Fleet		
Budget pressure - fuel	100	
Budget pressure - tyres	13	
Budget pressure - bicycles	<u>8</u>	
		121
Southern		
Growth - Cambourne Enquiry Officer		20
Northern		
Budget pressure - electricity	50	
PCSO	21	
Budget pressure - telephone	<u>19</u>	
		89
HR		
Growth - HR Manager	50	
Budget pressure - staffing	<u>13</u>	
		63
Estates		
Growth - servicing new estate	587	
Growth - support staff	<u>33</u>	
		620
Strategic Development Department		
Growth - Quest post		40
ACPO		
Growth - Women's Group		10
Corporate Communications		
Growth - marketing	90	
Growth - Citizen Focus	<u>60</u>	
		150
Professional Standards Department		
Growth - IT resilience testing		5
Investigations		
Budget pressure - interpreters	260	
Budget pressure - SARC	200	
Growth - budget assistant post	<u>32</u>	
		492
Total Budget Pressures / Growth		<u><u>1,776</u></u>
Being:		
Budget Growth		1,113
Budget Pressures		<u>662</u>
		<u><u>1,776</u></u>

Share of Precept to be paid by each District/City Council in 2010/11

	Council Tax Base	Precept	Collection Fund Surplus(+)/ Deficit(-)	Total Payments Due
	No.	£	£	£
Peterborough City	55,395.0	9,392,776	143,157	9,535,933
Fenland	30,772.0	5,217,700	-18,982	5,198,718
Huntingdonshire	58,580.0	9,932,825	-30,255	9,902,570
South Cambridgeshire	59,135.5	10,027,015	9,246	10,036,261
East Cambridgeshire	29,200.0	4,951,152	49,402	5,000,554
Cambridge City	40,205.0	6,817,160	0	6,817,160
Total	273,287.5	46,338,629	152,568	46,491,197

Treasury Management Strategy as approved at Finance and Resources Committee on 20th January 2010

5. Treasury Management Strategy

5.1 Investments

5.1.1 On 13th January 2009 the Police Authority approved and reaffirmed a number of tactical changes to the Treasury Management Policy in the face of unprecedented turbulence, uncertainty and volatility in the banking sector.

5.1.2 The key changes were:

- (i) to reaffirm the policy of placing security of investments ahead of any consideration of return and requiring all investments to be specified, (defined as; of high credit quality, in sterling and mature within 364 days).
- (ii) to keep the Authority's investments as short term as possible given volatility in credit ratings in the banking sector;
- (iii) to reduce the maximum investment with any one counterparty from £10m to £5m, excepting a Debt Management Account Deposit Facility (DMADF) and Northern Rock (see (viii) below);
- (iv) to tighten the credit rating requirement for counterparties from Fitch F1 (or equivalent) to the highest rating of each of the three main credit rating agencies i.e. Fitch F1+; Moody's P-1 and Standard and Poor's A-1+;
- (v) to permit investment in a DMADF (a flexible and secure facility provided by the Debt Management Office, an Executive Agency of HM Treasury);
- (vi) to permit, in extremis, investment of up to 100% of available funds in a DMADF;
- (vii) to permit investment in Northern Rock to a limit of 25% of available funds, within the government guaranteed term of 3 months,
- (viii) to limit investments not placed in a DMADF or Northern Rock to 25% of available funds for any one counterparty;
- (ix) to allow investment in UK banks falling outside the rating criteria at (iv) above where the UK Government holds a significant stake, to a limit of £5m or 25% of available funds;
- (x) to take account of sovereign ratings, rating outlooks and other appropriate market intelligence; and
- (xi) to authorise the Treasurer to take such decisions as may be required in a volatile investment climate subject to report back to the Police Authority.

Particular attention is drawn to point (iv) above which defines high credit quality (i.e. specified investments) for the Authority

5.1.3 In the event, the Authority has invested 100% of available cash with the DMADF because Northern Rock are not taking deposits for less than 3 months and interest rates are so low (currently around 0.25%) that the return on cash invested overnight is less than the transaction fees incurred in placing it with counterparties in the commercial sector.

5.1.4 Looking forward, it is proposed to reconfirm the changes to the Treasury Management Policy set out at para. 5.1.2 above because the banking sector, while not as fragile as a year ago, is still in recovery and the risk of liquidity problems remains. In addition, interest rates are likely to remain low in the short term making investment with many counterparties in the commercial sector unattractive for the reasons set out at para. 5.1.3 above.

5.1.5 However, it is also proposed to keep the Treasury Management policy under close review with a view to widening the list of available counterparties and / or seeking alternative investments (e.g. Money Market Funds) in order to benefit from increased rates of return with any changes being consistent with the Authority's appetite for risk and approved by the Authority in any event. Prior to any such review and approval, all investments will be specified (paragraph (5.1.2) above, and non specified investments will not be permitted. Should the Authority widen the list, security and liquidity benchmarking will then be undertaken.

5.1.6 The Authority uses Butlers as its treasury management consultants. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of members' reports.
- Credit ratings, market information service, comprising the three main credit rating agencies.
- Treasury Management Training has been offered by Butlers and this has been forwarded to the Treasurer (Section 151 Officer) for consideration.

5.2 Borrowing

5.2.1 The Authority is significantly underborrowed because it has used available internal cash to fund capital expenditure rather than borrow externally. This is a rational strategy when returns on balances and deposits are low and the rates on borrowing relatively high i.e. a low rate of return is forsaken in order to avoid a high cost of borrowing, bearing in mind the strategy of keeping investments as short-term as possible. The strategy is also rational where there is uncertainty in the banking sector i.e. cash is effectively tied up in capital investment rather than in a potentially risky financial investment. The Authority is not expecting to borrow in advance of need within the 2010/11 financial year.

5.2.2 Current rates of investment return are in the order of 0.25% in comparison with PWLB rates for 25 year loans which stand at 4.5%.

5.2.3 It is proposed to maintain the strategy of internal borrowing to the extent that internal cash resources allow. However, the Authority's capital plans are such that borrowing will be required in the short term.

5.2.4 It is envisaged that the Authority's borrowing requirements will be met by Public Works Loan Board ("PWLB") Loans. However, if interest rates are favourable, borrowing from money markets would be considered alongside PWLB loans.

- 5.2.5 The Authority's existing loans are on an annuity basis (i.e. interest and principal are repaid over the life of the loan). It is proposed that new borrowing is taken on a maturity basis (i.e. interest only is paid over the life of the loan with the principal repayable at term) on the grounds that a cash flow advantage is obtained and that borrowing will better match the requirement for finance as measured by the CFR.
- 5.2.6 Rescheduling - opportunities arise over the life of a loan or portfolio of loans to reschedule the debt to take advantage of lower interest rates going forward.
- 5.2.7 The Authority's portfolio of loans has been reviewed for such an opportunity which does not arise, particularly as PWLB rates are forecast to increase in the near future.

Appendix 5

Prudential Indicators 2010/11 to 2012/13

1. Capital Expenditure and External Debt

- 1.1 The actual capital expenditure incurred in 2008/09 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

Prudential Indicator 1

Capital Expenditure					
	2008/09 £'000 Actual	2009/10 £'000 Forecast	2010/11 £'000 Estimate	2011/12 £'000 Estimate	2012/13 £'000 Estimate
Total	11,670	15,435	4,795	4,920	5,060

- 1.2 Estimates of the Ratio of Financing Costs to Net Revenue Stream for the current and future years, and the actual figures for 2008/09 are:

Prudential Indicator 2

Ratio of financing costs to net revenue stream					
	2008/09 Actual	2009/10 Forecast	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
Total	0.9%	1.1%	2.5%	3.0%	3.4%

- 1.3 The estimates of financing costs include current commitments and the proposals set out in the 2010/11 Budget Report.
- 1.4 Estimates of the end of the year Capital Financing Requirement for the Authority for the current and future years and the actual Capital Financing Requirement at 31st March 2009 are:

Prudential Indicator 3

Capital Financing requirements					
	31/03/09 £'000 Actual	31/03/10 £'000 Forecast	31/03/11 £'000 Estimate	31/03/12 £'000 Estimate	31/03/13 £'000 Estimate
Total	18,016	31,320	33,951	36,462	38,868

- 1.5 The Capital Financing Requirement measures the Authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, Cambridgeshire Police Authority does not associate borrowing with particular items or types of expenditure. The Authority has an integrated treasury management strategy and has adopted the CIPFA *Code of Practice for Treasury Management in the Public Services*. Cambridgeshire Police Authority has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the Authority and not simply those arising from capital spending. In contrast, the capital financing requirements reflects the Authority's underlying need to borrow for a capital purpose.
- 1.6 CIPFA's *Prudential Code for Capital Finance in Local Authorities* includes the following as a key indicator of prudence (**Prudential Indicator 4**):
- "In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."*
- 1.7 The Treasurer reports that the Authority had no difficulty meeting this requirement in 2008/09, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in the 2010/11 Budget report.
- 1.8 In respect of its external debt, it is recommended that the Authority approves the following Authorised Limits (**Prudential Indicator 5**) for its total external debt gross of investments for the next three financial years. These limits separately identify borrowing from other long term liabilities such as finance leases. The Authority is asked to approve these limits.

Prudential Indicator 5

Authorised limit for external debt				
	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
Borrowing	40,000	40,000	45,000	45,000
Other long term liabilities	-	-	-	-
Total	40,000	40,000	45,000	45,000

- 1.9 The Treasurer reports that these Authorised Limits are consistent with the Authority's current commitments, existing plans and the proposals in the 2010/11 Budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Treasurer confirms that they are based on the estimate of most likely, prudent but not worse case scenario, with sufficient headroom to allow for operational management, for example, unusual cash payments. Risk analysis and risk management strategies have been taken into account; as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimate of cashflow requirements for all purposes.
- 1.10 The Authority is also asked to approve the following Operational Boundary (Indicator 6) for external debt for the same period. The proposed Operational Boundary for external debt is based on the same estimates as the Authorised Limit, but reflects directly the Director of Finance's estimate of the most likely, prudent but not worse case scenario, without the additional headroom included within the Authorised Limit to allow, for example, for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The Operational Boundary represents a key management tool for in-year monitoring by the Director of Finance. Within the Operational Boundary, figures for borrowing and other long-term liabilities are separately identified.

Prudential Indicator 6

Operational boundary for external debt				
	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
Borrowing	31,320	33,951	36,462	38,868
Other long term liabilities	-	-	-	-
Total	31,320	33,951	36,462	38,868

- 1.11 The Authority's actual external debt at 31st March 2009 was £8.4m, comprising borrowing only. It should be noted that actual external debt is not directly comparable to the Authorised Limit and Operational Boundary, since the actual external debt reflects the position at any one time and is largely dependent on the timing of payments against the approved Capital Programme.
- 1.12 In taking its decisions on the 2010/11 Budget report, the Authority is asked to note that the Authorised Limit determined for 2009/10 will be the statutory limit determined under decision 3(1) of the Local Government Act 2003.
- 1.13 The estimated incremental impact on Band D Council Tax of capital investment decisions proposed in the 2010/11 Budget report, over and above capital investment decisions that have previously been taken by the Authority, is:

Prudential Indicator 7

2010/11	2011/12	2012/13
£ 6.50	£ 2.65	£ 1.78

1.14 Consideration of options for the Capital Programme

1.14.1 In considering its programme for capital investment, the Authority is required within the Prudential Code to have regard to:

- affordability, e.g. implications for Council Tax
- prudence and sustainability, e.g. implications for external borrowing
- value for money, e.g. option appraisal
- stewardship of assets, e.g. asset management planning
- practicality, e.g. achievability for the forward plan

1.14.2 A key measure of affordability is the incremental impact on the Council Tax, and the Authority could consider different options for its capital investment programme in relation to their differential impact on the Council Tax.

2. Treasury Management

2.1 The Treasury Management function provides the link between the Authority's Capital Financing Requirement and the structure and management of its debt. The Prudential Code sets out a range of indicators designed to assist the Authority in managing the risks inherent in the Treasury Management function the first of which (Prudential Indicator 8) is that the Authority has formally adopted the *CIPFA Code of Practice for Treasury Management in Public Services*. The specific indicators required by the Treasury Management Code are set out in the following paragraphs.

2.2 It is recommended that the Authority set an upper limit on its fixed interest rate exposures for 2010/11, 2011/12 and 2012/13 of 100% of its net outstanding principal sums (**Treasury Management Indicator 1**).

2.3 It is recommended that the Authority set upper and lower limits for the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate as follows:

Treasury Management Indicator 2

	Upper Limit	Lower Limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

2.4 It is recommended that the maximum principal sums invested for more than 364 days is as follows:

Treasury Indicator 3

Maximum principal sums invested > 364 days				
		2008/09 £000	2009/10 £000	2010/11 £000
Total		-	-	-