

**REQUEST FOR DECISION – PCCSH/000076/2013**

**Title of decision: Outturn 2012/13**

**Executive Summary:**

The purpose of this report is to report the outturn position for 2012/13 and to request that the 2012/13 underspend is contributed to the Transformation Reserve to assist with the cost of change.

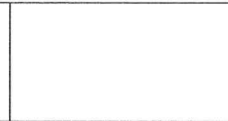
**Recommendation:**

That the report is noted and that the underspend is contributed to the Transformation Reserve.

Recommendation  
Approved



Recommendation  
Declined



**Police and Crime Commissioner**

I hereby approve/~~reject~~ the recommendation above.

**Signature**



**Date**

6/8/13

**Comments on the decision taken:**

Hampshire Constabulary is one of the most efficiently run police forces in the country. This has been achieved through sound financial management and business practices, enabling the constabulary to become the third lowest cost force in the country and, in doing so, to cut the cost of policing to the public by £55m.

A key part of our approach is investing upfront to transform the organisation and save year on year operational costs. That is what the "transformation reserve" is for. As well as an extensive programme of development of the police estate, we have identified a number of other work streams that require investment to deliver the scale of change required to meet future funding challenges

As a key public service, it is prudent that we hold both a 'Risk Contingency Reserve' (£6m) and a genuine reserve. This equates to just two-percent of our entire budget and enables us to have confidence that we can respond to events and keep the public safe.

From:	Chief Finance Officers
Date	5 July 2013
Timing	Regular
Purpose	For decision

**SUBJECT OF ADVICE:** Outturn 2012/13

**Summary:** The attached report outlines the outturn position for 2012/13. There was a net underspend of £6.056m (2%) against the annual revenue budget. However, £1.689m of the underspend has already been approved to be carried forward, for example, £1.120m for ongoing IT projects that show as an underspend in 2012/13 because they will not complete until 2013/14 at the earliest.

**Recommendation:** It is recommended that the report is noted and that the remaining underspend of £4.367m is contributed to the Transformation Reserve to pay for costs associated with programmes of work that will be necessary to achieve the efficiency savings required as a result of the ongoing reduction of Government funding.

**Consideration:** The 2012/13 budget has been subject to regular monitoring throughout the financial year. The contribution of the underspend to the Transformation Reserve is supported by the Force Change Board and Chief Officers Group.

**Affordability:** The contribution to the Transformation reserve is affordable from the 2012/13 budget underspend.

**Handling:** The key points of note will be an underspend of 2% which demonstrates that the Police and Crime Commissioner and Constabulary has been able to produce strong performance in 2012/13 without exceeding the budget available, which included £20m of savings compared to the 2011/12 budget. The reserves summary in the report shows that reserves exist to meet the cost of changes required in the medium term.

**Agreed By/Dissenting Views:** Approach agreed by Force Change Board, Chief Offices Group and Chief Finance Officers.

**Risks and Mitigation:** The contribution to the Transformation Reserve reduces the risk that funding will not be available to meet the cost of change.

**Other legislation impacts:** There are no impacts from other legislation.

- NOT PROTECTIVELY MARKED -

**ANNEXES:**

Outturn 2012/13 report

- NOT PROTECTIVELY MARKED

**Report to: Police & Crime Commissioner**

**4 July 2013**

**Outturn 2012/13**

**Report of the Chief Finance Officers**

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## **1. Purpose**

1.1 The purpose of this paper is to present the outturn position for 2012/13 and to recommend how the remaining underspend is allocated.

## **2. Recommendation**

2.1 It is recommended that:

- a. the report is noted
- b. the remaining underspend, after the carry forwards and contributions to reserves set out in this report, is contributed to the Transformation Reserve.

## **3. Revenue Outturn Summary**

3.1 The revenue budget outturn position is an underspend of £6.056m (2%) as shown in appendices A and B. Approval has already been given to:

- carry forward £1.120m for ongoing IT projects that straddle the end of the financial year
- carry forward £0.384m for RMS enhancements required to reflect national changes and facilitate efficiency savings
- contribute £0.050m to a sinking fund reserve to pay for replacement equipment at the shared laboratory with HCC
- contribute the Office for the Police and Crime Commissioner underspend of £0.135m to add to the Protecting People and Places Fund

3.2 The result is a net underspend of £4.367m which will be transferred to the Transformation Reserve.

3.3 The main driver for the underspend is the need to make savings during 2012/13 that need to be in place in order to balance the budget in 2013/14. The recruitment of officers and staff also has to take into account medium term plans regarding employee levels.

3.4 Performance in 2012/13 was good again with total crime falling for the 6<sup>th</sup> year running. Crime in 2012/13 was down 15.5% compared to the previous year. This indicates that the changes being made to deliver savings have been well managed and have met the need to achieve more with less.

- 3.5 The objective analysis at appendix A shows that underspends occurred across a number of units, evidencing a consistent approach from Commanders and Heads of Department to deliver efficiencies. The largest underspends were within Serious Crime Directorate (£3.169m), IT (£2.049m) and Criminal Justice and Custody (£1.597m). The IT underspend is partially offset by the carry forward of £1.120m on IT projects. The major reason for the remaining savings is employee vacancies, as positions are left unfilled during the change process.
- 3.6 Appendix B confirms that largest underspend is employees (£8.678m) as explained above. The underspend on IT (£1.132m) includes the IT projects underspend of £1.120m which is carried forward. The underspend on supplies and services (£1.292m) includes £0.638m underspend on payments to Thames Valley Police for IT services. Staff vacancies resulted in lower recharges. A saving of £0.464m was also achieved on forensic submission costs as a result of ongoing savings programmes to reduce cost in this area.

#### **4. Office of the Police and Crime Commissioner**

- 4.1 During 2012/13, the Police Authority was replaced by the Police and Crime Commissioner. For accounting purposes, this change is required to be treated as a 'merger' as if the Police and Crime Commissioner had been in post from 1 April 2012.
- 4.2 Appendices A and B show that the Police and Crime Commissioner had an underspend of £0.135m in 2012/13. This underspend will be contributed to the People and Places Fund.

#### **5. Capital**

- 5.1 The capital programme agreed by the Police Authority for 2012/13 was reviewed by the Police and Crime Commissioner. The initial review in November revised the capital programme for 2012/13 from £45.083m to £21.138m. The Estate Development Programme was subject to further review which resulted in a reduction in capital expenditure in 2012/13. The actual capital expenditure in 2012/13 was £11.065m as shown in appendix C. The only variance of note is the £4.233m of cost incurred against the Estate Development Programme, which was still subject to final approval so technically does not have an approved scheme status. All expenditure charged against the Estate Development Programme was approved by the Police Authority or Police and Crime Commissioner.
- 5.2 The updated capital programme for 2013/14, including the revised Estate Development Programme was approved by the Police and Crime Commissioner on 7 June 2013.

**6. Reserves**

- 6.1 The updated position of reserves is shown at appendix D. This assumes that the recommendations in this report are agreed and are shown as movements in 2013/14.
- 6.2 The reserves as at the end of 2012/13 have a balance of over £60m. However, approximately £8.5m is held on behalf of the national Association of Chief Police Officers and £1m is held for the Safer Roads Unit. Appendix D shows how the reserves are currently forecast to be used over the coming years, in particular, the use of the Transformation Reserve (£21m as at March 2013) to pay for the cost of changes required to address the reduction in Government funding over that period. The protocol for each reserve is set out at appendix E.

**7. Treasury Management**

- 7.1 The Treasury Management Outturn Report was presented to the Audit Committee on 25 June 2013. It is attached at appendix F for information. There was no new borrowing in 2012/13. Returns on investment and the financial outlook are set out in the report.

**8. Risks**

- 8.1 There are no risks associated with the outturn report. The Medium Term Financial Strategy sets out the financial challenges and plans to meet those challenges.

**9. Other implications**

AREA	IMPLICATION
Statutory Duty/Good Practice	It is a statutory duty to approve a balanced budget and to report the outturn of the budget.
Equality, Diversity and Human Rights	All contracts awarded and projects comply with legislation and internal standards on equality, diversity and human rights
Vulnerable People and Every Child Matters	A vulnerability programme is taking place, currently within the budget made available.
Environmental Impact	The Force considers the environmental impact of its actions
Trust and Confidence	Effective budget setting and control is a cornerstone of ensuring resources are used in the best way to deliver excellent service and improve public confidence.

AREA	IMPLICATION
Partnership and Collaboration	Options for partnership and collaboration are always considered and used where they provide benefit. The report sets out budgets for major partnerships and other organisations.
Strategic Documents	The report links with the Police and Crime Plan, Medium Term Financial Strategy, Capital Programme, Treasury Management policy and Prudential Indicators.

**Section 100 D - Local Government Act 1972 - background documents**

The following documents disclose facts or matters on which this report, or an important part of it, is based and has been relied upon to a material extent in the preparation of this report.

NB the list excludes:

1. published works; and,
2. documents which disclose exempt or confidential information as defined in the Act.



Objective Analysis

Portfolio, Area & Department	Actuals	Budget 2012/13	Variance	
	£'000	£'000	£'000	%
<b>Chief Constable and ACPO</b>	<b>300</b>	<b>373</b>	<b>(73)</b>	<b>(20)</b>
<b>Deputy Chief Constable</b>				
Corporate Estate	12,063	12,504	(441)	(4)
Operations (not JOU)	2,039	2,072	(33)	(2)
IT and Communications Department	10,537	12,586	(2,049)	(16)
Risk Management	3,809	4,077	(268)	(7)
Tasking & Co-ordination (incl EvtS)	11,178	11,350	(172)	(2)
Change Team	1,847	1,949	(102)	(5)
Service Centre	1,612	1,610	2	0
Head Office (including projects)	3,300	3,745	(445)	(12)
	<b>46,385</b>	<b>49,893</b>	<b>(3,508)</b>	<b>(7)</b>
<b>Assistant Chief Constable Crime &amp; Criminal Justice</b>				
Serious Crime Directorate	34,892	38,061	(3,169)	(8)
Criminal Justice Dept & Custody	18,460	20,057	(1,597)	(8)
Crime Collaboration	2,273	2,232	41	2
Special Events - Crime	864	836	28	3
Head Office (including projects)	674	650	24	4
	<b>57,163</b>	<b>61,836</b>	<b>(4,673)</b>	<b>(8)</b>
<b>Assistant Chief Constable 'TO'</b>				
Area Command Units	128,152	129,455	(1,303)	(1)
Public Services Directorate	22,367	22,772	(405)	(2)
Head Office (including projects)	386	603	(217)	(36)
	<b>150,905</b>	<b>152,830</b>	<b>(1,925)</b>	<b>(1)</b>
<b>Assistant Chief Constable 'Operations'</b>				
Joint Operations Unit (JOU)	16,809	17,117	(308)	(2)
Special Events - Operations	(1,156)	240	(1,396)	(582)
	<b>15,653</b>	<b>17,357</b>	<b>(1,704)</b>	<b>(10)</b>
<b>Director of Corporate Services &amp; HR</b>				
Human Resources	3,452	3,114	338	11
Training	6,102	6,429	(327)	(5)
Transport	2907	2,876	31	1
Head Office (including projects)	67	158	(91)	(58)
	<b>12,528</b>	<b>12,577</b>	<b>(49)</b>	<b>(0)</b>
<b>Chief Finance Officer</b>	<b>2860</b>	<b>2,860</b>	<b>0</b>	<b>0</b>
<b>General Items:</b>				
Compensatory Grant	331	500	(169)	(34)
Capital Financing (net)	3,597	4,334	(737)	(17)
Budgets awaiting allocation	244	1,201	(957)	(80)
Pension lump sum contribution	3,352	3,689	(337)	(9)
Contributions to / (from) Reserves	10,489	2,113	8,376	396
General Income	(4)	0	(4)	0
Interest	(673)	(500)	(173)	35
National levies	1,175	1,507	(332)	(22)
Injury award pensions	1,450	1,106	344	31
Specific Grants not allocated	(7,564)	(7,564)	0	0
	<b>12,397</b>	<b>6,386</b>	<b>6,011</b>	<b>94</b>
<b>Total Constabulary:</b>	<b>298,191</b>	<b>304,112</b>	<b>(5,921)</b>	<b>(2)</b>
<b>Police Authority/PCC</b>	<b>1,365</b>	<b>1,500</b>	<b>(135)</b>	<b>(9)</b>
<b>Total Net Expenditure:</b>	<b>299,556</b>	<b>305,612</b>	<b>(6,056)</b>	<b>(2)</b>

Subjective Analysis

Subjective heading	Adjusted Actuals	Budget 2012/13	Variance	
	£'000	£'000	£'000	%
<b>Expenditure:</b>				
Employees	261,260	269,938	(8,678)	(3)
Premises	10,595	11,124	(529)	(5)
Transport	4,829	4,682	147	3
Travel and Subsistence	3,187	3,388	(201)	(6)
IT and Communications	3,949	5,081	(1,132)	(22)
Supplies and Services	30,766	32,058	(1,292)	(4)
National Levies	1,012	1,278	(266)	(21)
Grants Paid	367	570	(203)	(36)
Capital Financing (net)	3,669	4,334	(665)	(15)
<b>Total Expenditure:</b>	<b>319,634</b>	<b>332,453</b>	<b>(12,819)</b>	<b>(4)</b>
<b>Income:</b>				
Service Income	(12,311)	(12,337)	26	(0)
Additional Specific Grants	(13,217)	(12,004)	(1,213)	10
<b>Total Income:</b>	<b>(25,528)</b>	<b>(24,341)</b>	<b>(1,187)</b>	<b>5</b>
	<b>294,106</b>	<b>308,112</b>	<b>(14,006)</b>	<b>(5)</b>
<b>Police Authority/PCC</b>	1,365	1,500	(135)	(9)
<b>Interest on Balances</b>	(690)	(517)	(173)	33
<b>Contributions to/(from) Reserves</b>	4,775	(3,483)	8,258	(237)
<b>Total Overall Net Expenditure:</b>	<b>299,556</b>	<b>305,612</b>	<b>(6,056)</b>	<b>(2)</b>

Capital Outturn

Those schemes which have already been approved and are either annual programmes or projects for which full business cases and / or project appraisals have been agreed (with the exception of those marked #).	Approved scheme cost	Relevant spend prior to 2012/13	Actual 2012/13	Total spend prior to 31 March 2013
		<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<b>Estate</b>				
Energy & Water Conservation	965	216	34	250
Premises Improvement	Annual	367	9	376
Building Improvements	Programme	1,708	17	1,725
Inkerman range	150	86	4	90
Vickery Power Supply	359	379	13	392
<i>Estate Development Programme (EDP)</i>				
# Total EDP	0	645	4,233	4,878
<b>Total Estate:</b>	<b>77,890</b>			
<b>Technology</b>				
Capitalisation of IT equipment	Annual Programme	Annual Programme	288	Annual Programme
Network Replacement (Growth 11/12)	2,314	1,932	10	1,942
Mobile Information (Growth 12/13 & RCCOs)	3,511	1,059	1,393	2,452
HR IT System (RCCO 11/12)	700	78	185	263
Mobile Phone Replacement Programme	140	7	89	96
Radios (RCCO 11/12)	423	315	28	343
Body Worn Video (RCCO 11/12)	261	0	42	42
Airwave Handset Replacement (RCCO 12/13)	1,236	0	1,269	1,269
Automatic Number Plate Recognition (RCCO 12/13)	639	0	210	210
<b>Technology:</b>	<b>9,224</b>			
<b>Transport</b>				
Vehicle Replacement Programme	Annual Programme	Annual Programme	2,390	Annual Programme
# Vehicle Replacement Programme (post Change Programme)				
Marine Replacement	1,415	520	851	1,371
<b>Transport:</b>	<b>1,415</b>			
<b>Grand Totals:</b>	<b>88,529</b>		<b>11,065</b>	
<b>Capital Receipts:</b>				
Residential properties			0	
Operational buildings-Estate Development Programme			(307)	
Vehicles and fleet			(318)	
Other			(1)	
<b>Total Capital Receipts:</b>			<b>(625)</b>	
<b>Capital Grant:</b>			(3,086)	
<b>Revenue Contributions to Capital Outlay:</b>			(3,019)	
<b>Funded by Transformation Reserve:</b>				
<b>Shortfall to be funded by borrowing</b>			<b>4,335</b>	

Appendix D

Reserves

Reserves	As at 31/03/12	12/13	As at 31/03/13	13/14	As at 31/03/14	14/15	As at 31/03/15	15/16	As at 31/03/16
<b>£000</b>									
<b>General Reserve:</b>									
Commissioner/Authority carry forward		(129)		(135)					
Force carry forward		(2,265)		(1,504)					
Transformation Reserve		(4,217)		(4,367)					
Other movements		8,911		(437)		(387)		(387)	
<b>Balance</b>	<b>12,006</b>		<b>14,306</b>		<b>7,863</b>		<b>7,476</b>		<b>7,089</b>
<b>Transformation Reserve</b>									
Contributions to Transformation Reserve		4,603		4,367					
Moved to Risk Reserve		(4,000)							
Use of reserve (excluding EDP)		(2,287)		(6,437)		(4,522)		(4,159)	
EDP related expenditure		(920)		(4,240)		(4,923)		0	
<b>Balance</b>	<b>23,640</b>		<b>21,036</b>		<b>14,726</b>		<b>5,281</b>		<b>1,122</b>
<b>Risk Reserve:</b>									
Movement		6,689							
<b>Balance</b>	<b>0</b>		<b>6,689</b>		<b>6,689</b>		<b>6,689</b>		<b>6,689</b>
<b>Equipment Reserve:</b>									
Movement									
<b>Balance</b>	<b>1,000</b>		<b>1,000</b>		<b>1,000</b>		<b>1,000</b>		<b>1,000</b>
<b>Performance Reserve:</b>									
Movement		(800)		(1,700)					
<b>Balance</b>	<b>2,500</b>		<b>1,700</b>		<b>0</b>		<b>0</b>		<b>0</b>
<b>Insurance Reserve:</b>									
Movement		0		0		0		0	
<b>Balance</b>	<b>894</b>		<b>894</b>		<b>894</b>		<b>894</b>		<b>894</b>
<b>Laboratory Reserve:</b>									
Movement		0		50		(50)		0	
<b>Balance</b>	<b>0</b>		<b>0</b>		<b>50</b>		<b>0</b>		<b>0</b>
<b>Spend to Save Reserve:</b>									
Gains paid out -		(386)							
<b>Balance</b>	<b>386</b>		<b>0</b>		<b>0</b>		<b>0</b>		<b>0</b>
<b>Capital (Revenue Contributions) Reserve:</b>									
Contribution from revenue account		2,630		200		200		200	
Used to support capital programme		(2,946)		(2,015)		(200)		(200)	
<b>Balance</b>	<b>2,131</b>		<b>1,815</b>		<b>0</b>		<b>0</b>		<b>0</b>
<b>Earmarked Reserves:</b>									
ACRO surety (£1,750k in opening balance)		800							
Netley Business Plan (£98k in opening balance)		30							
Reserves which are carried on the balance sheet but are not totally controlled by HPA (e.g. ACRO) or balances that have been agreed to be held.		6,530		(11,561)		0		0	
<b>Balance</b>	<b>6,879</b>		<b>14,239</b>		<b>2,678</b>		<b>2,678</b>		<b>2,678</b>
<b>Total Revenue Reserves:</b>	<b>49,436</b>	<b>12,243</b>	<b>61,679</b>	<b>(27,779)</b>	<b>33,900</b>	<b>(9,882)</b>	<b>24,018</b>	<b>(4,546)</b>	<b>19,472</b>

Appendix E

Reserves Protocol

Reserve	Purpose	Owner	Review Process
<b>General</b>	To provide an adequate balance for one-off expenditure or unforeseen costs.	Police and Crime Commissioner (PCC)	PCC and CFOs in preparing budgets and close of accounts.
<b>Transformation</b>	To provide for cost of change e.g. investment, redundancies.		Reviewed at Force Change Board and by PCC for each request.
<b>Risk</b>	To protect against savings shortfall or increases in cuts.		PCC and CFOs in preparing budgets and close of accounts.
<b>Capital (Revenue Contributions)</b>	To facilitate revenue contributions towards the financing of capital expenditure.		MTFS, budget monitoring and close of accounts.
<b>Equipment</b>	To support large equipment replacement costs e.g. body armour.		PCC and CFOs in preparing budgets and close of accounts.
<b>Performance</b>	To support targeted policing strategies. £2.5m was made available over a 2 year period 2012/14 for Operation Fortress.		PCC and CFOs in preparing budgets and close of accounts.
<b>Insurance</b>	To cover excess costs and additional claims.		At least annually on close of accounts.
<b>Earmarked</b>	To hold ring-fenced funds, principally for ACPO Criminal Records Office.		Reviewed annually with close of accounts.
<b>Laboratory</b>	A sinking fund to pay for replacement equipment at a shared laboratory with HCC.		Reviewed annually with close of accounts.

Note: As owner, the Police and Crime Commissioner must approve any expenditure from any of the reserves.

**Annual Treasury Outturn Report 2012/13**

**10. Purpose**

- 10.1 The Office of the Police and Crime Commissioner (OPCC) adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice, which includes an annual report on the treasury management strategy after the end of each financial year.

**11. Summary**

- 11.1 Treasury management in the context of this report is defined as:

“The management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

- 11.2 This annual report sets out the performance of the treasury management function during 2012/13, to include the effects of the decisions taken and the transactions executed in the past year.
- 11.3 Overall responsibility for treasury management remains with the OPCC. No treasury management activity is without risk; the effective identification and management of risk are integral to the OPCC’s treasury management objectives.
- 11.4 All treasury activity has complied with the OPCC’s Treasury Management Strategy Statement and Investment Strategy for 2012/13, and all relevant statute, guidance and accounting standards. In addition the OPCC’s treasury advisers, Arlingclose, provide support in undertaking treasury management activities.
- 11.5 The prudential and treasury management indicators which are all covered in this report are:
- actual capital financing requirement
  - actual external debt
  - authorised limit and operational boundary for external debt
  - upper limits for fixed interest rate exposure and variable interest rate exposure
  - maturity structure of fixed rate borrowing
  - total principal sums invested for periods longer than 364 days

- ratio of financing costs to net revenue stream.

## **12. Economic background**

- 12.1 The following Section outlines the key economic themes against which investment and borrowing decisions have been made. Despite elements of stability returning to the economy there have been periods of uncertainty, as outlined below, and there remain significant risks that have to be managed.
- 12.2 The global outlook stabilised mainly due to central banks maintaining low interest rates and expansionary monetary policy for an extended period. Equity market assets recovered sharply with the FTSE 100 registering a 9.1% increase over the year. This was despite economic growth in G-7 nations being either muted or disappointing.
- 12.3 In the UK the economy shrank in the first, second and fourth quarters of calendar 2012. It was the impressive 0.9% growth in the third quarter, aided by the summer Olympic Games, which allowed growth to register 0.2% over the calendar year 2012.
- 12.4 The expected boost to net trade from the fall in the value of sterling did not materialise, but raised the price of imports, especially low margin goods such as food and energy. Annual CPI dipped below 3%, falling to 2.4% in June before ticking up to 2.8% in February 2013. Higher food and energy prices and higher transport costs were some of the principal contributors to inflation remaining above the Bank of England's 2% CPI target.
- 12.5 The lack of growth and the fall in inflation were persuasive enough for the Bank of England to maintain the Bank Rate at 0.5% and also sanction additional £50 billion asset purchases (QE) in July, taking total QE to £375 billion. In the March Budget the Bank's policy was revised to include the 2% CPI inflation remit alongside the flexibility to commit to intermediate targets.
- 12.6 The resilience of the labour market, with the International Labour Organisation (ILO) unemployment rate falling to 7.8%, was the main surprise given the challenging economic backdrop. Many of the gains in employment were through an increase in self-employment and part time working.
- 12.7 In March the Office for Budgetary Responsibility (OBR) halved its forecast growth in 2013 to 0.6% which then resulted in the lowering of the forecast for tax revenues and an increase in the budget deficit. The government is now expected to borrow an additional £146bn and sees gross debt rising above 100% of GDP by 2015-16. With the national debt metrics out of kilter with a triple-A rating, it was not surprising that the UK's sovereign rating was downgraded by Moody's in February and more recently by Fitch.
- 12.8 The Euro region suffered a further period of stress when Italian and

Spanish government borrowing costs rose sharply and Spain was also forced to officially seek a bailout for its domestic banks. Markets were becalmed after the ECB's declaration that it would do whatever it takes to stabilise the Eurozone and the central bank's announcement in September of its Outright Monetary Transactions (OMT) facility, buying time for the necessary fiscal adjustments required. Neither the Italian elections which resulted in political gridlock nor the poorly-managed bailout of Cyprus which necessitated 'bailing-in' non-guaranteed depositors proved sufficient for a market downturn. Growth was hindered by the rebalancing processes under way in Euroland economies, most of which contracted in Q4 2012.

- 12.9 The government's Funding for Lending initiative commenced in August which gave banks access to cheaper funding on the basis that it would then result in them passing this advantage to the wider economy. There was an improvement in the flow of credit to mortgagees, but was still below expectation for SMEs. One direct consequence of the Funding for Lending Scheme was the sharp drop in rates at which banks borrowed from local government. 3-month, 6-month and 12-month Libid rates which were 1%, 1.33% and 1.84% at the beginning of the financial year fell to 0.44%, 0.51% and 0.75% respectively.

### 13. The borrowing requirement and debt management

	Balance on 31/03/2012 £m	Net new borrowing £m	Balance on 31/03/2013 £m
Capital Financing Requirement	45.9	2.5	48.4

- 13.1 The OPCC's underlying need to borrow as measured by the Capital Financing Requirement (CFR) as at 31/3/2013 was estimated at £48.4m. The OPCC's borrowing requirement during the year identify in the capital programme was £4.2m, as shown in the table in 6.20.

	Balance on 31/03/2012 £m	Net new borrowing £m	Balance on 31/03/2013 £m
Long Term Borrowing	39.6	-1.2	38.4
Temporary borrowing	0.0	0.0	0.0
Total Borrowing	39.6	-1.2	38.4
Other Long Term Liabilities	1.5	-0.2	1.3
Total External Debt	41.1	-1.4	39.7



13.2 The indicator for total external debt is obtained directly from the OPCC's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

13.3 A cautious approach has been applied in terms of take-up of new borrowing to minimise debt interest payments without compromising the long-term stability of the portfolio. No new external borrowing took place in 2012/13. Internal resources in lieu of external borrowing have been used in order to lower overall treasury risk by reducing both external debt and temporary investments.

#### 14. Investment activity

14.1 The OPCC has invested according to a low risk, high quality lending list as outlined in the Investment Strategy for 2012/13.

	Balance on 31/03/2012 £m	Balance on 31/03/2013 £m	Average Rate % / Average Life (yrs)
Instant access monies	16.29	4.32	0.75% (0)
Short term investments	28.00	37.25	0.92% (0.37)
Long term investments	7.00	13.00	0.77% (1.33)
<b>Total investments</b>	<b>51.29</b>	<b>54.57</b>	<b>0.87% (0.57)</b>

14.2 Security of capital remained the OPCC's main investment objective. This was maintained by following the OPCC's counterparty policy as set out in its Treasury Management Strategy Statement for 2012/13. Investments during the year included:

- deposits in AAA-rated Money Market Funds
- deposits with UK local authorities
- call accounts and deposits with banks and building societies systemically important to the UK's banking system.

14.3 Counterparty credit quality was assessed and monitored with reference to:

- credit ratings
- credit default swaps
- any potential support mechanisms
- share prices.

14.4 The minimum long-term counterparty credit rating determined for the 2012/13 treasury strategy was A-/A3 across rating agencies Fitch, S&P

and Moody's. Based on the factors above and advice from the Treasury Management advisors, Arlingclose, the Treasurer for the OPCC has varied investment duration limits for new investments according to the assessment of credit risk and will suspend investing with individual counterparties at any time if this is felt to be necessary to protect the OPCC's capital.

- 14.5 The OPCC maintained a sufficient level of liquidity through the use of Money Market Funds and the use of call accounts. The OPCC sought to optimise returns commensurate with its objectives of security and liquidity. The UK base rate was maintained at 0.5% through the year and short term money market rates remained at very low levels which had a significant impact on cash investment income. The OPCC's average cash investment balance was £70.24m during 2012/13, and interest earned was £0.69m leading to an average yield of 0.97%.

## **15. Compliance with Prudential Indicators**

- 15.1 The OPCC can confirm that it has complied with its Prudential Indicators for 2012/13, which were set in February 2012 as part of the OPCC's Treasury Management Strategy Statement. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.
- 15.2 Following the succession of the Police Authority by the Police and Crime Commissioner (PCC) in 2012 the PCC reaffirmed the adoption of the CIPFA Treasury Management Code on 11 February 2013. In compliance with the requirements of the Code this section of the report provides a summary of actual performance against each of the Prudential Indicators.

### Capital Financing Requirement

- 15.3 The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR) is a core driver of treasury management activity. The estimates and actual position as at 31 March 2013 are:

	31/03/2013 Estimate £m	31/03/2013 Actual £m
Total Capital Financing Requirement	47.6	48.1
Less:		
Existing profile of long term borrowing	-38.4	-38.4
Other long term liabilities	-1.3	-1.3
Gross borrowing requirement	0.0	0.0
Temporary borrowing	7.9	8.4
Less usable reserves	-45.7	-62.3
Net borrowing requirement / - internal borrowing	-37.8	-53.9

Authorised

Limit and Operational Boundary for external debt

- 15.4 CIPFA's Code of Practice requires authorities to set an Authorised Limit for external debt, defined as the sum of external borrowing and other long-term liabilities. This is a statutory limit which should not be breached. The OPCC's Authorised Limit was set at £60m for 2012/13.
- 15.5 This limit is based on the estimated Capital Financing Requirement (CFR) in order to enable it to be financed entirely from external borrowing should the OPCC's internal reserves become depleted. The limit also includes an allowance for temporary borrowing to cover normal revenue cash flow requirements and unexpected outflows or delays in receiving cash.
- 15.6 During 2012/13, the gross borrowing reached a maximum of £41.1m which is within the Authorised Limit of £60m.
- 15.7 The OPCC also needs to set an Operational Boundary for external debt. This should reflect the most likely scenario and be consistent with the OPCC's capital plans and Treasury Management Strategy. Temporary breaches of the 2012/13 Operational Boundary can take place for cash flow reasons, but any sustained breach will lead to further investigation. The OPCC approved an Operational Boundary for 2012/13 of £50m.
- 15.8 During 2012/13, the gross borrowing reached a maximum of £41.1m which is within the Operational Boundary of £50m.

Upper limits for fixed interest rate exposure and variable interest rate exposure

- 15.9 These indicators allow the OPCC to manage the extent to which it is exposed to changes in interest rates.
- 15.10 The OPCC has to set an upper limit on its fixed interest rate exposure, which is expressed in terms of the maximum long-term fixed-rate principal

sums which can be outstanding on any day in each year. The OPCC approved an upper limit on fixed interest rate exposure for 2012/13 of £50m.

- 15.11 During 2012/13, the long-term fixed-rate principal sums outstanding reached a maximum of £39.6m which is within the upper limit on fixed interest rate exposure of £50m.
- 15.12 The OPCC also has to set an upper limit on its variable interest rate exposure. The OPCC approved an upper limit on variable interest rate exposure for 2012/13 of £50m, which is based on the Operational Boundary and has been set to give the OPCC maximum policy flexibility. The limit enables the potential for a refinancing from, e.g., fixed to variable rate borrowing.
- 15.13 The OPCC's transfer debt, which is due to the County Council, is held at variable rates and the outstanding principal of £1.5m at the beginning of 2012/13 is within the upper limit on variable interest rate exposure of £50m.

Maturity structure of fixed rate borrowing

- 15.14 The Code also requires the OPCC to set upper and lower percentage limits on the maturity structure of its long-term fixed rate borrowing during 2012/13. The following table shows the limits approved by the OPCC. These have been set in order to allow maximum flexibility in managing the debt portfolio and are consistent with the existing portfolio.

	Upper limit (%)	Lower limit (%)	Actual (%)
Under 12 months	50	0	3.2
12 to 24 months	50	0	3.2
24 months to 5 years	50	0	9.5
5 years to 10 years	75	0	6.8
10 years to 20 years	75	0	22.7
20 years to 30 years	75	0	54.6
30 years to 40 years	100	0	0
40 years to 50 years	100	0	0
50 years and above	100	0	0

- 15.15 The OPCC's long-term fixed rate borrowing during 2012/13 has not breached these set limits.

Total principal sums invested for periods longer than 364 days

- 15.16 For 2012/13, the OPCC originally set an upper limit of £15m on investments for periods longer than one year in February 2012. On setting the Treasury Management Strategy Statement for 2013/14 in February 2013, the opportunity was taken to revise the upper limit for 2012/13 to £20m.
- 15.17 This indicator allows the OPCC to manage the risk inherent with longer term investments, and lending for longer than 364 days and up to a maximum of two years is currently restricted to UK local authorities only (including police bodies and fire authorities).
- 15.18 The OPCC's long-term investments during 2012/13 have not breached either the original or revised limit.

#### Capital Expenditure

- 15.19 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits, and, in particular, to consider the impact on council tax.

	2012/13 Approved £m	2012/13 Actual £m	31/03/14 Estimate £m	31/03/15 Estimate £m
Capital Expenditure	21.1	11.1	12.7	24.1

15.20 Capital expenditure has been and will be financed or funded as follows:

Capital Financing	2012/13 Approved £m	2012/13 Actual £m	31/03/14 Estimate £m	31/03/15 Estimate £m
Capital receipts	-2.2	-0.8	-3.6	-10.2
Government Grants	-3.1	-3.1	-2.7	-2.8
Capital payments reserve	0.0	0.0	0.0	0.0
Revenue contributions	-3.4	-3.0	-1.4	-0.5
Capital contributions	0.0	0.0	0.0	0.0
<b>Total Financing</b>	<b>-8.7</b>	<b>-6.9</b>	<b>-7.7</b>	<b>-13.5</b>
Supported borrowing	0.0	0.0	0.0	0.0
Unsupported borrowing	-12.4	-4.2	-5.0	-10.6
<b>Total Funding</b>	<b>-12.4</b>	<b>-4.2</b>	<b>-5.0</b>	<b>-10.6</b>
<b>Total Financing and Funding</b>	<b>-21.1</b>	<b>-11.1</b>	<b>-12.7</b>	<b>-24.1</b>

- 15.21 The table shows that the capital expenditure plans of the OPCC could not be funded entirely from sources other than external borrowing.

#### Ratio of financing costs to net revenue stream

- 15.22 The ratio of financing costs to the net revenue stream shows the estimated annual revenue costs of borrowing (interest payable on debt plus the

minimum revenue provision for repaying the principal less interest on balances) as a percentage of the amount in the draft revenue budget to be met from central government grant and by local taxpayers. Actual figures for 2011/12 and 2012/13 together with the estimate for 2012/13 are set out in the table below.

	2011/12 Actual £m	2012/13 Estimate £m	2012/13 Actual £m
Financing costs	2.238	2.744	2.717
Net revenue stream	314.096	305.612	305.639
Ratio	0.71%	0.90%	0.89%