Meeting	Police & Crime Panel (PCP)
Date	6 February 2025
Title	Precept proposal for 2025/26
Submitted By	The Police and Crime Commissioner for Hertfordshire (PCC)
Purpose of Report	To notify the Hertfordshire PCP of the PCC's proposed precept for 2025/26 and to enable it to review the proposal.
Recommendation	That the PCP endorses the PCC's proposed precept increase of £14.00 per annum (5.6%) bringing the total policing element of Council Tax, for a Band D equivalent property, to £265.00 per year.
Financial Implications	Included in the body of the report
Risk Implications	Failure to apply sound financial management principles over the medium-term may threaten the organisation's financial sustainability.
Legal Implications	The PCC is a precepting authority for the purposes of the Local Government Finance Act 1992 and must set the Council Tax precept in accordance with the requirements of that Act as well as the further requirements of the Police Reform and Social Responsibility Act 2011.
Equalities Impacts	66% of chargeable dwellings are in council tax bands A to D and so will pay an extra £14 or less per annum[1]. There are Local Council Tax Support (LCTS) schemes available in all districts to provide financial assistance to both pensioners and those of working age in paying their council tax.
Freedom of Information Exemption Section if Applicable	Not exempt under Freedom of Information Act 2000.

[1] Source: https://www.gov.uk/government/statistics/council-taxbase-2024-in-england - Published 13 November 2024

Executive Summary

This report outlines the budget and financial impact of the 2025/26 precept option on which the Police and Crime Commissioner (PCC) has consulted, namely, to increase council tax by £14.00 per annum at Band D (5.58%)[2]. The table below shows the calculation for the council tax requirement for 2025/26, in accordance with Section 42A of the Local Government Finance Act 1992.

Table 1.

	£m
Net Budget 2024/25	267.376
Standstill costs	17.975
Savings	-7.250
Investment	1.829
Net Budget 2025/26	**279.930**
Less Home Office Settlement Grants	-150.072
Less Additional Core Grant	-5.173
Less Collection Fund (surplus)/deficit	-0.269
Council Tax Precept Requirement for 2025/26	124.416
Estimated number of band D properties (No.)	469,350
2024/25 Band D Precept requirement £ p.a.	**265.00**
Current Band D Precept (2023/24) £ per annum	251.00
Increase required £ per annum	14.00
Increase required % per annum	5.58%

The resulting council tax bands are shown in the table below:

Table 2.

Band	Proportion of Band D charge	2024/25 Charge £	2025/26 Charge £	Precept increase £			
				per annum	per month	per week	per day
A	6/9ths	167.33	176.67	9.34	0.78	0.18	0.03
B	7/9ths	195.22	206.11	10.89	0.91	0.21	0.03
C	8/9ths	223.11	235.56	12.45	1.04	0.24	0.03
D	**9/9ths**	**251.00**	**265.00**	**14.00**	**1.17**	**0.27**	**0.04**
E	11/9ths	306.78	323.89	17.11	1.43	0.33	0.05
F	13/9ths	362.56	382.78	20.22	1.68	0.39	0.06
G	15/9ths	418.33	441.67	23.34	1.94	0.45	0.06
H	18/9ths	502.00	530.00	28.00	2.33	0.54	0.08

[2] An increase over £14.00 would require a local referendum.

CONTENT	

1. Commissioner's summary

As the new Police & Crime Commissioner, one of the key areas of work for my first year has been to understand and review the operation of the Constabulary and wider crime prevention and community safety interventions and partnerships. Scrutinising the budget and financial position has been an important part of this work.

My overriding priority is to keep the people of Hertfordshire safe and ensure the county has effective and responsive policing. I have worked closely with the Chief Constable to ensure this budget is able to support the Constabulary in improving performance following the HMICFRS inspection, addressing the priorities I am setting out in the Police & Crime Plan on behalf of the public and enabling the Chief Constable to deliver an excellent service to the public.

The public's top priority in the survey and consultation I carried out in the summer for the Police & Crime Plan was improved police visibility and tackling anti-social behaviour. This budget helps the Constabulary respond to that by:

- Permanently increasing the police officer baseline to 2,405 officers, an increase of twelve officers from the previous baseline
- Putting more resources into neighbourhood policing, with expected growth in neighbourhood police officers and PCSOs, with the precise mix still to be agreed with the Home Office

Just over half (56%) of police funding in Hertfordshire comes from Government grant with the remainder (44%) coming from the policing precept from the council tax. This year, the Government grant settlement assumes that Police & Crime Commissioners will raise the precept by £14 per year (27p per week) for a Band D household.

This would be an increase of 5.6% and will raise an additional £7.38m which, alongside Government grant, means the gross budget will rise to £313.2m.

Unfortunately, the cost pressures facing policing are increasing at a faster rate than the increases in funding. My predecessor had to address standstill costs of £21m for the current financial year's budget and I need to address standstill costs of £18m for 2025/26.

In common with many public services, the costs facing policing are increasing faster than the resources available to meet them. This year, the well-deserved pay rise for police officers and staff has not been fully funded by the Government. Despite Ministers promising to fully compensate policing for the increases in employers national insurance contributions, this has not happened and the NIC grant falls short of the Constabulary's increased costs. And in common with other private and public sector organisations, non-pay costs such as premises, utilities and business rates continue to rise significantly.

After the grant settlement (including the Government's assumption about precept increases), savings of £7.25m are needed to balance the budget.

The Chief Constable and I have worked to make savings which have the minimal possible impact on the service the public receive. These include:

- Savings from non-pay, BCH and OPCC budgets
- Phasing out targeted variable payments, where the Constabulary is now an outlier
- Removing police staff vacancies in non-operational roles
- Making a technical adjustment to PCSO budgets to set the baseline at the Government's neighbourhood policing guarantee. There will be no reduction in PCSO numbers in neighbourhood roles and an expectation that PCSO numbers will increase in 2025/26 once the mix of the neighbourhood policing uplift has been agreed with the Home Office
- Reviewing the workforce mix in areas where it is appropriate for police officers to perform staff roles (such as investigating crime)

To improve financial resilience, the budget partially reverses previous reductions in overtime budgets which have not been achievable and which have been a cause of overspends in the previous and current financial years. Overtime is an important tool for the Constabulary to manage day to day demand and enable police officers and staff to keep the public safe.

As the report sets out, the Chief Constable and I have not been able to go as far as we would have liked to invest in technology to improve efficiency given the financial constraints. Over the coming year, we will work to understand the long-term funding position once the Spending Review is published and create the 'invest to save' capacity needed in future years.

I have also commissioned the OPCC Interim Chief Executive to carry out a review of the Office's structure and operation which will report to me later this year.

Financial outlook

Hertfordshire has the eighth lowest police funding per 1,000 population, according to HMICFRS data for 2023/24.

The county also has the fifth lowest policing precept in England & Wales, being around £30 a year lower than the average (Band D). While historic decisions dating back to the old Police Authority to keep the precept lower have saved Hertfordshire taxpayers money, they also mean that I am able to allocate around £14 million a year less to local policing than would be the case if the precept was the national average.

In these financial papers, we are also publishing some analysis of the long-term financial trajectory of the Constabulary. Financial resilience for Hertfordshire ranks 7th lowest of 43 police forces according to CIPFA analysis in March 2024. On the current trajectory, total reserves will be depleted by September 2029. This cannot be allowed to happen and will require corrective action over the life of the Medium-Term Financial Plan.

Precept consultation

I undertook a public consultation on the precept following the Government's publication of the grant settlement. This ran from 20th December to 12th January and was advertised in the local media, social media and via two Herts Connected messages.

1,286 responses were received.

I asked the public whether they would support a £14 per year (27p per week) (Band D) increase in the policing precept which received the following response:

- 63% in favour
- 26% against
- 11% neutral

I also asked a hypothetical question about whether the public would support an increase above £14 per year (27p per week) (Band D) if the Government permitted it within the referendum principles, which is not the case this year. Because it is a hypothetical question and to avoid confusion the question tested the principle rather than any specific figure. This received the following response:

- 47% in favour
- 37% against
- 16% neutral

Precept proposal

I have given careful consideration to the financial challenges facing the Hertfordshire policing budget and the need to maximise the resources the Chief Constable has to deliver operational policing, as well as the cost-of-living pressures on taxpayers and the results of the public consultation.

My proposal is that the policing precept should increase by the £14 per year (27p per week) (Band D) for 2025/26. As I expect most, if not all, Police & Crime Commissioners will reach a similar conclusion in light of this year's Government settlement, I anticipate that Hertfordshire's policing precept will remain the fifth lowest nationally.

66% of chargeable dwellings in Hertfordshire are in council tax bands A-D so will pay the £14 increase or less. There are Local Council Tax Support Schemes available in all districts to provide financial assistance to both pensioners and low-income working age residents.

2. **A view from the Chief Constable**

Having started as the new Chief Constable on the 1st January 2025, I am working at pace, with my leadership team, to develop a clear mission statement for the Constabulary. This will be based on four key pillars:

1) Keeping people safe
2) Catching criminals
3) Maintaining high levels of community confidence
4) Training, trusting, and empowering my teams to do the right thing

I am confident that the Constabulary, made up of 4,200 amazing officers, staff and volunteers, will do everything it can to deliver great policing for Hertfordshire.

Last autumn, His Majesty's Inspectorate of Constabulary reported on our performance. I am pleased say that, since then, significant improvements have been made. Crime recording is much improved, and there is a clear plan to ensure we investigate crime, support victims and target offenders.

Disappointingly, the 2025-26 budget settlement does not meet all the increasing costs faced by the Constabulary. Police officer numbers will be maintained at an all-time high of 2,405, but this means we will need to find £7.2m of savings next year. With careful management, intelligent spending, effective partnership working, smart use of technology and hard work, the Constabulary will balance the books and provide the excellent services the public of Hertfordshire deserve.

3. Background

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

It provides the Panel with information on the 2025/26 revenue and capital budgets and the Commissioner's recommended council tax precept increase to meet these financial commitments[3]. The PCC is responsible for setting the annual budget and council tax precept for 2025/26 and giving consideration as to whether the budget and service plans are relevant, affordable, and sustainable in the longer-term. In doing so, he must satisfy himself that services and resource allocation have been appropriately prioritised and that financial risks have been adequately addressed and covered by, for example, reserves, contingencies, and risk mitigation plans.

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

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

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

The Panel must therefore review the proposed precept notified to it and provide a report on the proposal to the Commissioner by the 8 February 2025.

4. The Funding Context

The government has increased the core grant for 2025/26, but the increase is not enough to cover the cost of pressures such as pay-rises, increased business rates and utilities costs. Section 7 sets out the standstill pressures the Constabulary is facing for 2025/26.

The government also set out changes to employer National Insurance contributions (ERNIC) at the last budget and stated that public bodies will be fully compensated for the additional costs incurred. HM Treasury has however limited the additional funding to base salary costs only. The increase in ERNIC due on overtime, location allowances, shift allowances etc. is therefore, all unfunded.

The referendum threshold for council tax increases for 2025/26 is set at £14 for a Band D equivalent property. Whilst this represents an increase compared to 2024, it is a lower threshold in both absolute cash and real percentage terms than the 2023 increase of £15.

Taking all of this into account and assuming the PCC uses the full precept flexibility, the growth in the constabulary's sources of funding does not match the growth in its cost base. The constabulary therefore will have to find savings of £7.3m in 2025/26.

The choices available to the constabulary to close the funding gap are limited. The ring-fenced funding arrangements for the Uplift programme effectively set a minimum number of police officer numbers the constabulary must maintain. The Neighbourhood Policing Guarantee similarly establishes the same for Police Community Support Officers. Less than 50% of the constabulary budget is therefore in scope for savings, leaving reductions to non-pay budgets and police staff posts as the main options.

The constabulary is committed to delivering sustainable strategic change, but this budget is proposed in the context of a single year Spending Review (SR). Without the clarity that a multi-year SR brings, these savings proposals are necessarily tactical. Government has indicated that it will publish a multi-year SR in late spring 2025, in anticipation of this the constabulary has commenced a programme of strategic reviews that will coincide with the publication of the SR. The outcomes of the reviews will allow the constabulary to make longer term strategic and sustainable decisions about the use of resources in pursuit of its core objectives.

5. Grant Settlement

The 2025/26 Provisional Settlement was announced on 17 December 2024 in a written statement by the Crime and Policing Minister. Full details of the Settlement can be found on the Home Office website here. The deadline for responses to the provisional settlement was 5pm on 10 January 2025. The main elements of the grant settlement are set out below:

a. Core Grant[4]

The provisional settlement sets out a net cash increase of £5.2m and resultant overall settlement grant funding of £155.2m.

Table 3.

	2024/25 £m	2025/26 £m
Core Grant	139.844	145.017
Council Tax Legacy Grant	10.228	10.228
Total	**150.072**	**155.245**
Change on previous year (£m)	7.847	5.173
Change on previous year (%)	5.47%	3.45%

This total increase includes funding to mitigate the impact of the 4.75% pay award for both police officers and staff from 1 September 2024 representing additional funding to support forces in meeting the higher than budgeted cost. National funding totalling £163.7m in 2024/25 was announced by the Home Office in September 2024 of which Hertfordshire's share was £2.498m. For 2025/26 this funding sits within core grant of £145.017m.

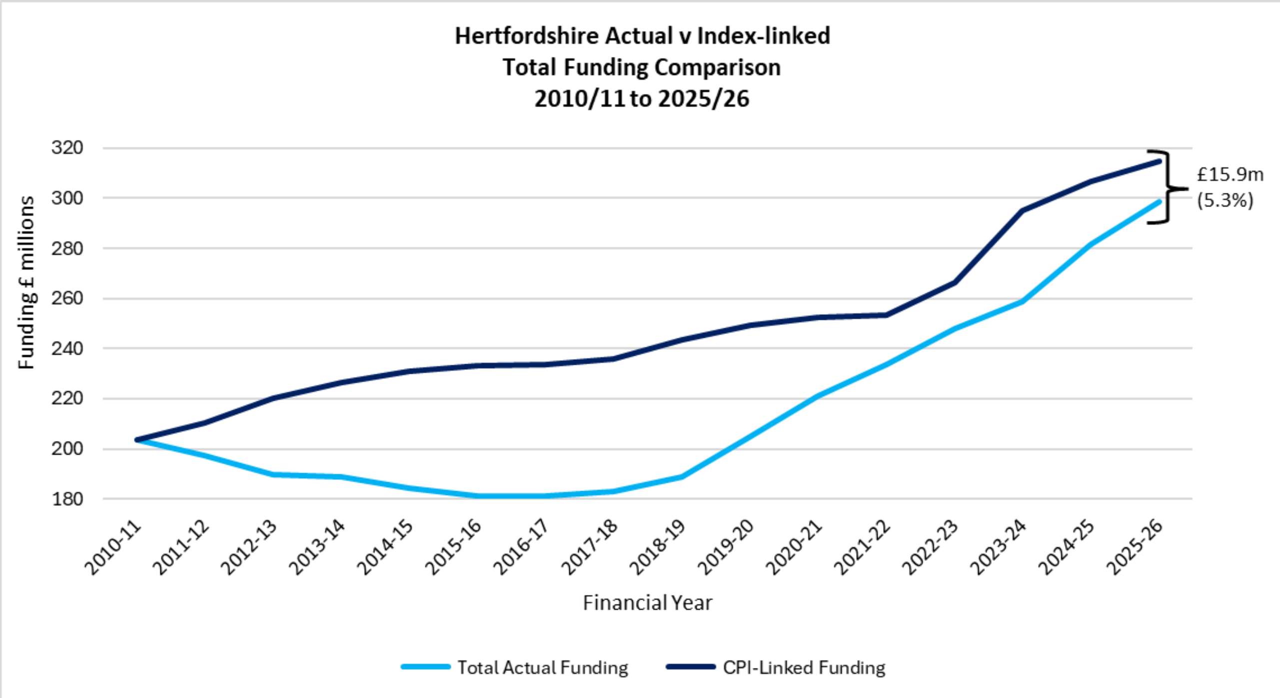
b. Specific Grant - Police Uplift Programme (PUP) maintenance funding - £5.342m (£1.720m decrease from 2024/25)

Although yet to confirm the exact mechanism for receiving PUP Maintenance funding for 2025/26, the Home Office has committed to maintaining police officer numbers, and PUP Maintenance funding in the form of Maintenance Grant, linked to maintaining Officer numbers. The Provisional Police Settlement has confirmed that the 2024/25 tranche of an additional 12 police officers will be built into the Constabulary's PUP target, increasing it to 2,405. In addition, the Provisional Settlement sets-out the overall quantum of funding linked to maintaining police officer numbers has decreased by £1.720m and so PUP funding will total £5.3m in 2024/25 with receipt assumed contingent upon maintaining officer numbers at or above 2,405 head count for each of the two check points.

[4] No changes to the Police Funding Formula are anticipated in 2025/26.

The graph below shows that despite significant increases in recent years, primarily focused on the Police Uplift Programme (PUP), Hertfordshire's overall funding since 2010 has not kept pace with the CPI inflation and is £15.9m less in 'real terms'.

Graph 1.



c. Additional Recruitment Top-Up Grant £1.284m (New Grant)

This new grant reflects £106.7 m national of previously ring-fenced PUP maintenance grant to be paid to forces who have received additional recruitment allocations. This funding will be provided as an unconditional additional recruitment top up grant and will be distributed according to how much additional recruitment forces have carried out in 2024/25. Hertfordshire share of this funding is £1.284m.

d. Police Officer Pension Grant - £6.444m (£0.430m decrease from 2024/25)

The Polce Pension Fund grant is to cover the cost of increases to the employer's contributions for police pensions that result from national valuations. The grant saw a significant increase for 2024/25 totalling £4.875m to cover the cost of the increased employer contribution rate from 31.0% to 35.3% following the latest valuation of the scheme. The Provisional Settlement sets-out that this grant will now decrease by £0.430m in 2025/26 reflecting (i) a £14m national transfer to cover increased pension costs for

Counter Terrorism Police Officers, and (ii) the national removal of the £26.8m provided in 2024/25 in recognition of the software development and administrator costs associated with delays to the implementation of the McCloud remedy.

e. National Insurance Increase - £3.966m (New Grant)

At the Autumn Budget, the Chancellor announced the rate of employer National Insurance will increase by 1.2 percentage points, to 15% from 6 April 2025 and the threshold at which it is paid will be lowered to £5,000. The cost to Hertfordshire is estimated at £4.394m and is included in the 2025/26 Standstill Costs (see section 7). To compensate for the impact of these changes the provisional police funding settlement proposes an additional £230.3m of national funding to territorial police forces allocated according to their workforce headcount as at March 2024. Hertfordshire's share of this funding is £3.966m.

f. Neighbourhood Policing - £1.526m (New Grant)

This funding represents Hertfordshire's share of the £100.0m that will be provided nationally to deliver the first steps of the Government's Neighbourhood Policing Commitment in 2025/26. The force is currently in discussion with the Home Office regarding the baselines and required uplifts that it has been set. Details of expenditure requirements are yet to be received from the Home Office and it has been assumed that implementation will incur an additional £0.900m which is included in Section 9 - Investment below.

g. Capital Grant

The government has once again has decided not to allocate capital funding to forces through a direct grant.

h. Ministry of Justice (MoJ) Grants

In addition to the Home Office funding outlined above, the PCC also receives grants from the MoJ, for the commissioning of victims' services, which for 2025/26 has been confirmed at slightly lower than the current year at £2.310m and comprises the following elements:

Table 4.

<table>
<tr><th>Grant element</th><th>2024/25
£m</th><th>2025/26
£m</th><th>Y-on-Y Change
£m</th><th>Y-on-Y Change
%</th></tr>
<tr><td>Victims Services Core budget</td><td>1.383</td><td>1.325</td><td>(0.058)</td><td>(4.2%)</td></tr>
<tr><td>ISVA[5]/ IDVA[6] Baseline Funding #1</td><td>0.323</td><td rowspan="4">0.985</td><td rowspan="4">0.000</td><td rowspan="4">0.0%</td></tr>
<tr><td>ISVA / IDVA Additional Funding #2</td><td>0.208</td></tr>
<tr><td>ISVA / IDVA Additional Funding #3</td><td>0.259</td></tr>
<tr><td>Domestic Violence/Sexual Violence services</td><td>0.195</td></tr>
<tr><td>Total funding</td><td>2.368</td><td>2.310</td><td>(0.058)</td><td>(4.2%)</td></tr>
</table>

5 Independent Sexual Violence Advisor

6 Independent Domestic Violence Advisor

6. Council Tax income

On the 17 December 2024, the Home Office published their provisional police grants guidance[7] which set out policing's council tax referendum principles of £14 on a typical Band D property.

a. Taxbase

The taxbase is calculated by the billing authorities by converting all properties to Band D equivalents and making assumptions about the levels of discounts to be offered and the amount of tax to be collected. The final council tax base and collection fund balance estimates for Council Tax, provided by the 10 billing authorities, estimate that the police tax base will increase by 0.5%, realising a further £0.6m of income. The table below shows a breakdown across the 10 billing authorities.

Table 5.

Hertfordshire Boroughs & Districts' Taxbase				
Billing Authority	**Tax Base 2024/25**	**Tax Base 2025/26**	**Change increase/(decrease)**	
	No.	**No.**	**No.**	**%**
Broxbourne Borough Council	36,432.70	36,636.03	203.33	0.6%
Dacorum Borough Council	60,276.50	60,250.18	(26.32)	0.0%
East Herts District Council	64,809.90	65,314.00	504.10	0.8%
Hertsmere Borough Council	43,178.60	43,331.04	152.44	0.4%
North Herts District Council	50,562.60	50,823.00	257.40	0.5%
St Albans District Council	64,015.00	64,632.20	617.20	1.0%
Stevenage Borough Council	28,579.40	28,571.80	(7.60)	0.0%
Three Rivers District Council	39,850.80	40,038.90	188.10	0.5%
Watford Borough Council	35,532.10	35,648.70	116.60	0.3%
Welwyn Hatfield District Council	43,875.30	44,250.40	375.09	0.9%
TOTAL	**467,112.90**	**469,496.25**	**2,380.35**	**0.5%**

[7] Provisional police grant report: 2025 to 2026 - GOV.UK

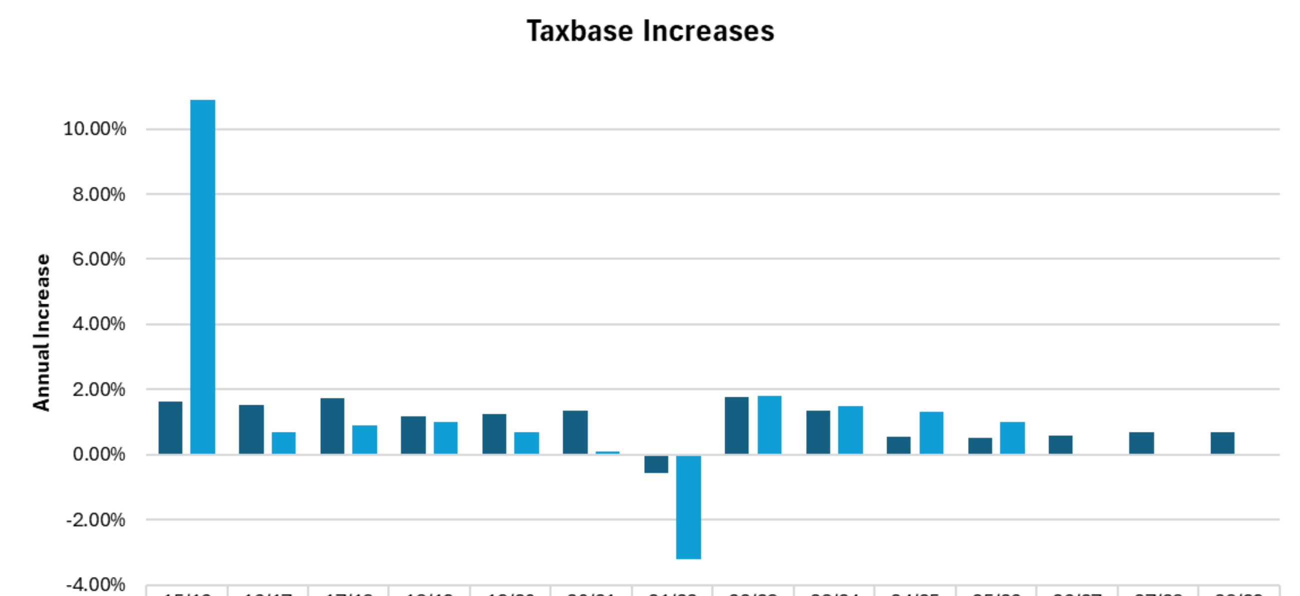
Since 2022/23, Hertfordshire's tax base has consistently fallen below the national average. The tax base for 2024/25 was disappointing, with growth of only 0.54%. This is followed by another low increase of 0.50% reported for 2025/26. This again lags behind the national average growth in council tax base of 1%.

Billing authorities across the county have cited several reasons for this lower-than-average growth rate. These include:

- Lower collection rates
- Increases in the cost of Council Tax Support schemes
- Lower-than-forecast increases in housing development

The graph below illustrates the changes in Hertfordshire's actual tax base compared to the England average. It also includes the projected levels for the next two years.

Graph 2



	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29
Herts	1.63%	1.52%	1.74%	1.18%	1.26%	1.34%	-0.58%	1.78%	1.34%	0.54%	0.50%	0.60%	0.70%	0.70%
England	10.90%	0.70%	0.90%	1.00%	0.70%	0.10%	-3.20%	1.80%	1.50%	1.30%	1.00%			

Year

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

Table 6.

Taxbase Calculation	Amount
Estimated number of band D properties – 2025/26	469,496
Number of band D properties – 2024/25	467,113
Increase in tax base properties	2,383
Band D council tax rate	£251.00
Increased tax base income	**£0.598m**

b. Collection fund

The collection fund reflects the year-to-year differences between the estimated and actual council tax received, due to changes in collection rates and levels of tax base growth. For 2025/26 there is expected to be a net year-on-year increase of circa. £0.556m. The table below provides an illustration of the overall change between years.

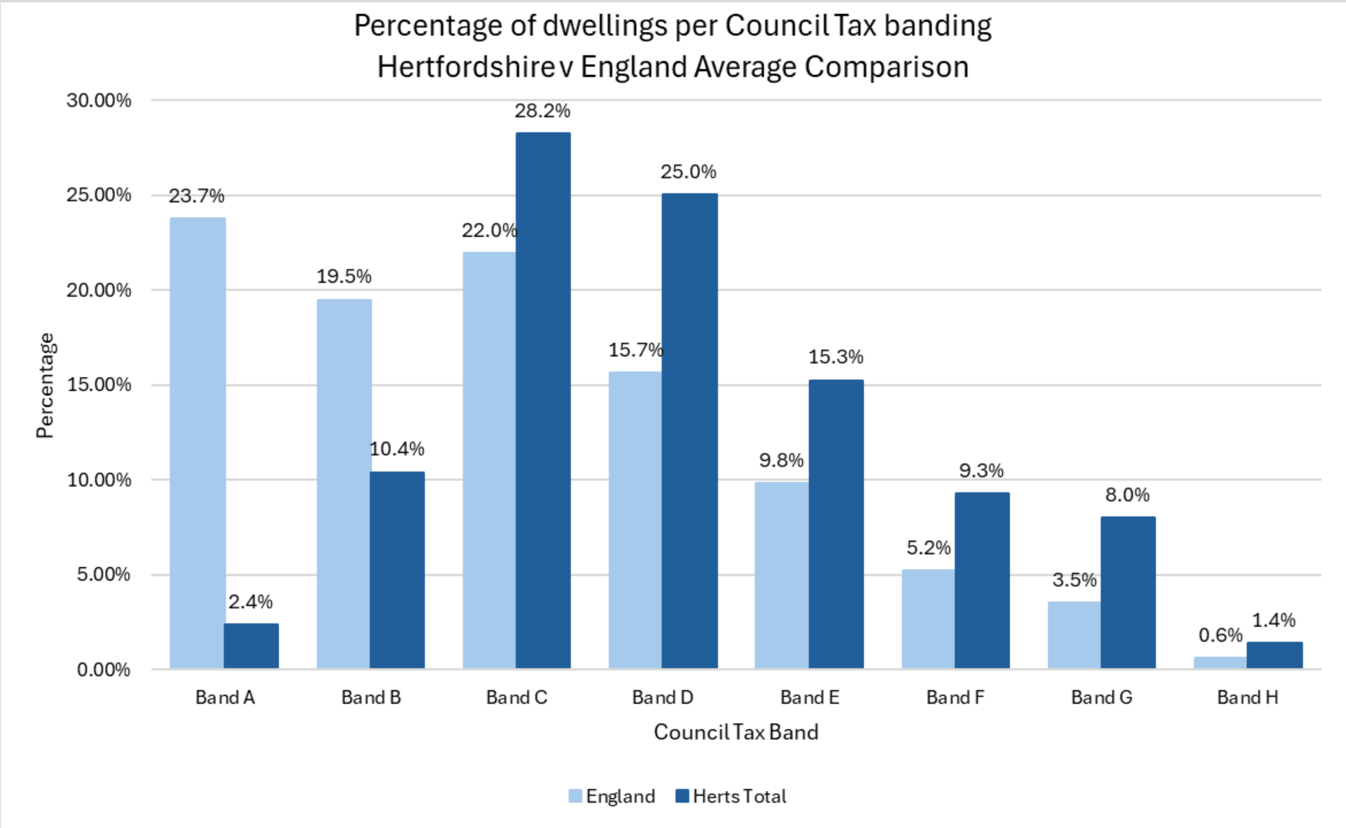
Table 7.

Draft Collection Fund Surplus/(Deficit) relating to the PCC			
Billing Authority	**2024/25 £**	**2025/26 £**	**Change £**
Broxbourne Borough Council	28,216.09	-110,807.67	-139,023.76
Dacorum Borough Council	75,854.82	29,742.21	-46,112.61
East Herts District Council	313,273.00	63,499.61	-249,773.39
Hertsmere Borough Council	-87,986.00	34,282.00	122,268.00
North Herts District Council	-19,991.00	133,585.90	153,576.90
St Albans District Council	33,401.00	460,508.00	427,107.00
Stevenage Borough Council	166,377.00	-205,593.15	-371,970.15
Three Rivers District Council	-79,241.19	-118,853.00	-39,611.81
Watford Borough Council	-80,721.42	-1,178.47	79,542.95
Welwyn Hatfield District Council	-291,111.34	-16,482.54	274,628.80
TOTAL	**58,070.96**	**268,702.90**	**210,631.94**

c. Band D Council Tax

The band D council tax policing precept proposed for 2025/26 is £265.00, an increase of £14.00 or 5.58% on the comparable figure for 2024/25. The graph below shows the composition of the chargeable dwellings in Hertfordshire in comparison to the average for England[8].

Graph 3



As shown above, 66.0% of Hertfordshire's properties are in Bands A to D and so will pay £265.00 or less for the policing element of their council tax.

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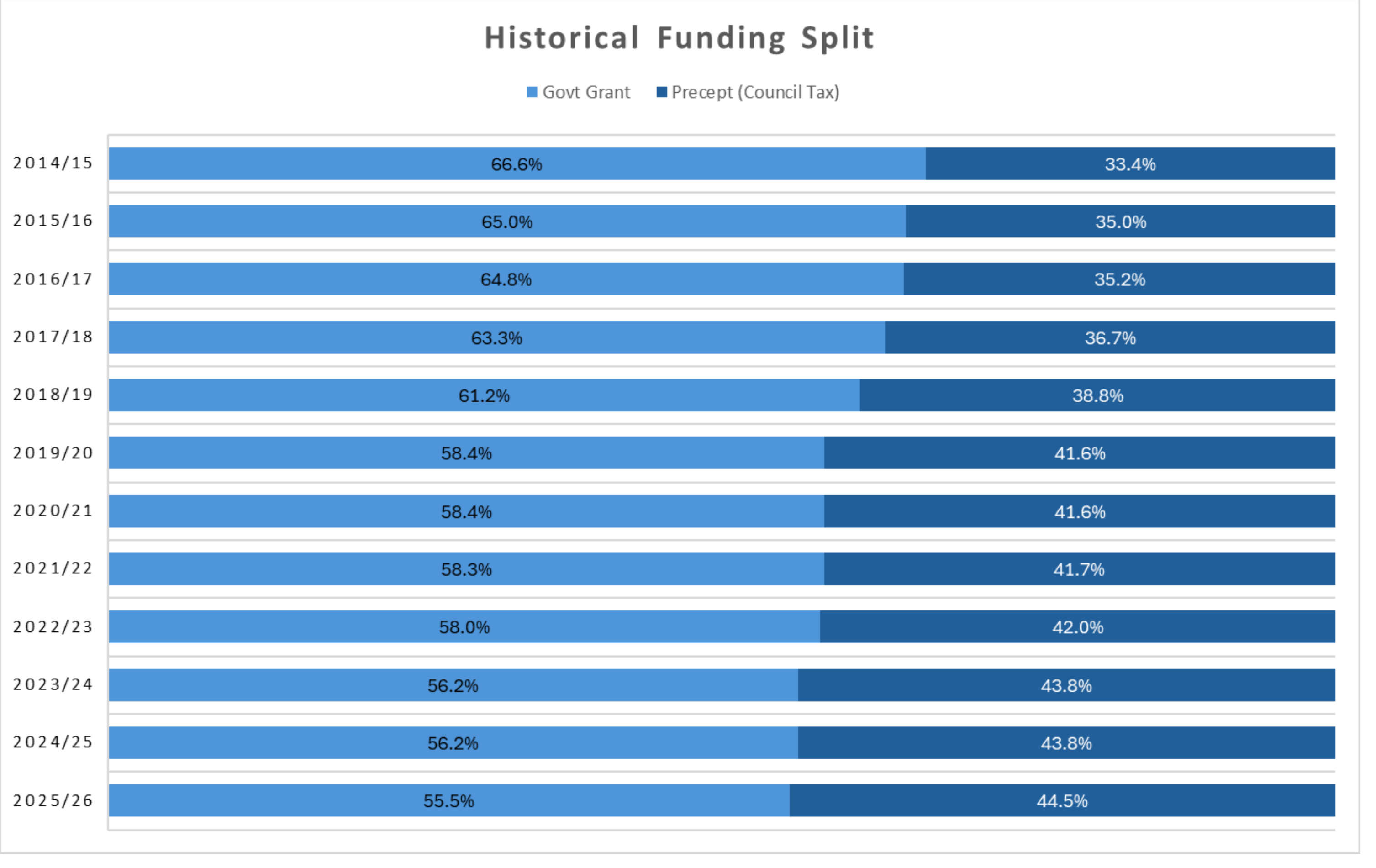
[8] As per September 2024 https://www.gov.uk/government/statistics/council-taxbase-2024-in-england

In 2025/26 council tax income accounts for 44.5%[9] of the funding and the graph below shows how this has changed over time. As can be seen the proportion of funding has shifted by 11.1%, away from central government grant funding towards locally determined precepting[10].

Graph 4

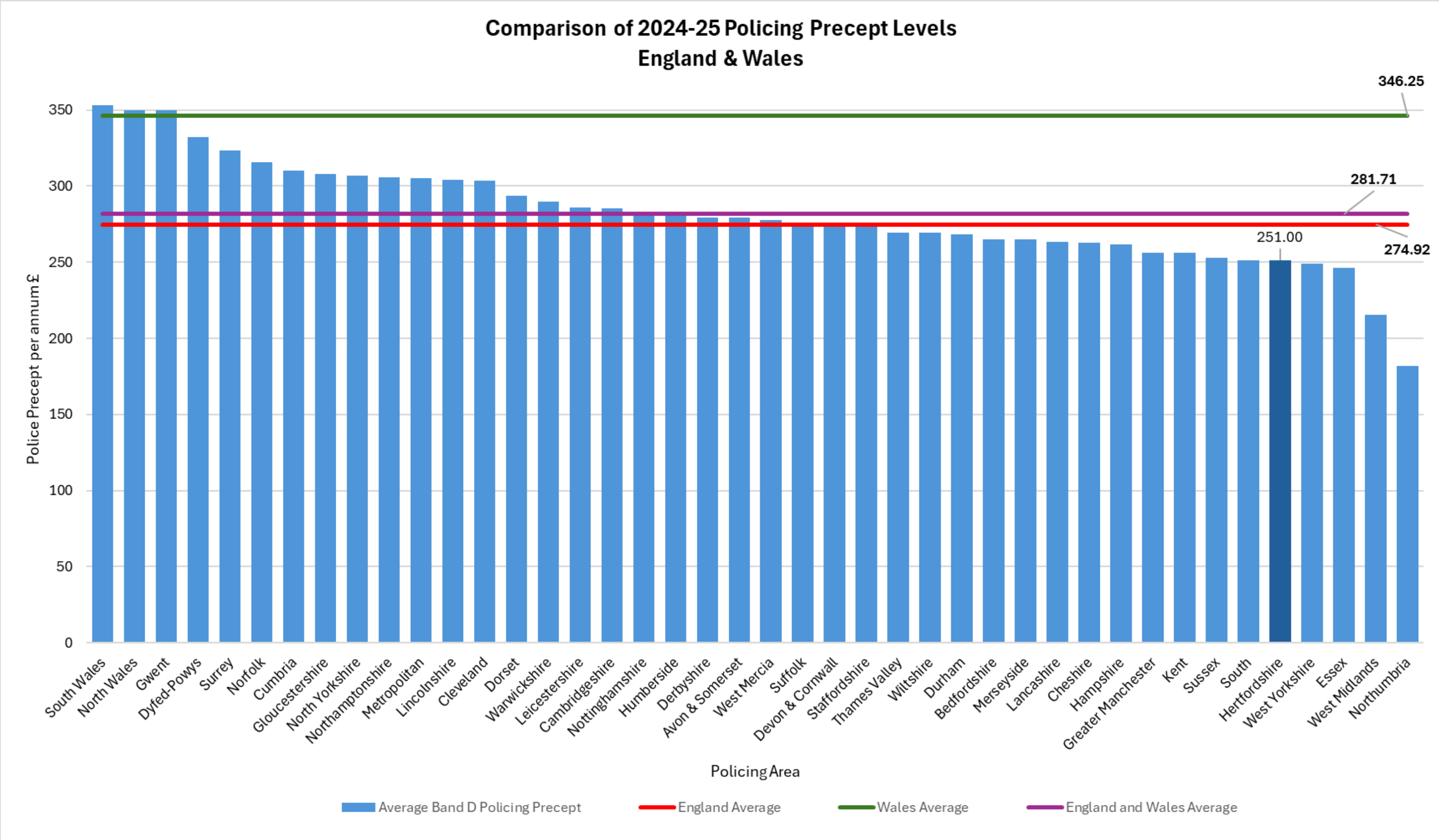


9 National average 38.8% for the precept element ranging from 19.1% (Northumbria) to 54.5% (Surrey).

10 Hertfordshire's precept was frozen between 13/14 and 15/16 and reduced in 16/17 and was compensated with council tax freeze grant of £8.2m (13/14), £8.9m (14/15) and then £10.2m from 15/16 onwards.

Hertfordshire's current 2023/24 Band D council tax precept of £251.00 is the 5th lowest in the country and is 12.2% below the average of the 43 precepting forces[11] in England & Wales of £281.71. The graph below shows how Hertfordshire's 2024/25 precept level compares.

Graph 5



11 Excludes City of London which receives a precept grant in lieu of their inability to precept

d. Overall Increase in Council Tax Income

The net effect of tax base, collection fund surplus and the precept increase set-out above results in a £7.381m increase in council tax income for 2025/26.

Table 8.

Council Tax Element	**2024/25 £m**	**2025/26 £m**
Precept increase	6.073	6.573
Tax base increase	0.598	0.597
Collection fund change	(0.641)	0.211
Total Council Tax increase	**6.030**	**7.381**

Further detail of the estimated precept to be received from the individual billing authorities can be found in Appendix B.

7. Standstill Pressures

Standstill budget pressures are those costs increases that are required to deliver the same level of service as in the current financial year. The standstill budget requirement for 2025/26 totals £17.975m and comprises the following:

Table 9.

Standstill Costs	2025/26 £m
Officer Pay	9.092
Staff Pay	5.708
National Insurance	4.394
Non-Pay	2.587
Capital Financing	0.824
Specific Grants	-4.630
Total	**17.975**

a. Police Officer pay costs – £9.092m increased spend

Police Officer Pay Award 2024/25 - The 2024/25 budget included funding for a police officer pay award of 2.0% from 1 September 2024. The final award was set at 4.75% for all ranks and spinal points. The overall additional cost of the 2023/24 pay award totals £3.938m is included within the 2025/26 standstill costs.

Police Office Pay Award 2025/26 - Further it has been assumed that a 2.5% award will be payable form 1 September 2025 at a cost of £3.406m in 2025/26. At this stage, the police officer pay award for 2025/26 has yet to be agreed so there is a risk of change to the current figures. Pay awards above these levels are likely to require a require a revision to the work force plan to supress officer recruitment unless the Home Office provides additional funding as per the last two years.

Average Police Pay £1.600m – Hertfordshire continues to see an increase in the average officer rate as the cohorts of police constables recruited via the uplift program continue to move of the pay scales. This position has been reflected in the current forecast 2024/25 overspend against police pay budgets and additional funding of £1.6m is required to meet this pressure in 2025/26.

Overtime £0.138m – reflecting the pressure on overtime budgets in 2025/26 from the assumed 2.5% pay award.

b. Police Staff pay costs – £5.708m increased spend

Police Staff Pay Award 2024/25 - In line with the police officer pay award, the police staff pay 2024/25 budget included funding for a 2.0% increase from 1 September 2024. The final award was set at 4.75% for all grades and spinal points. The overall additional cost of the 2024/25 pay award totals £2.208m is included within the 2025/26 standstill costs.

Police Staff Pay Award 2025/26 - It has been assumed that a 2.5% award will be payable form 1 September 2025 at a cost of £1.911m in 2025/26. At this stage, the police staff pay award for 2024/25 has yet to be agreed so there is a risk of change to the current figures.

Reinstatement of Police Staff Recruitment Temporary Phasing £1.5m - The 2024/25 budget included a phasing allowance reflecting the then existing relatively high level of police staff vacancies support by controls over recruitment by the Police Staff Prioritisation Panel. The adjustment is to be removed from police staff budgets in 2025/26.

Overtime £0.027m reflecting the pressure on overtime budgets in 2025/26 from the assumed 2.5% pay award.

c. National Insurance £4.394m increased spend

Following the changes to employer National Insurance contributions announced in the Autumn Budget (see Section 5e above for details) the gross cost to Hertfordshire is estimated at £4.394m of which £2.653m relates to police officers and £1.741m to police staff.

d. Non-Pay - £2.587m increased spend

Provision has been made in the MTFS for general inflation in line with the latest OBR forecasts for CPI. For 2025/26 the budget includes an allowance for 1.6% general inflation across non-pay budgets at a cost of £0.836m, of which £0.416m will be held centrally to target areas or pressure during 2025/26.

In addition, specific pressures on non-pay budgets include; General Rates £0.500m, Utilities £0.425m, £0.200m for locally held software licences, higher material and labour costs associated with estates work £0.100, higher costs associated with detainees £0.100m and a £0.070m uplift in NPAS charges.

e. Capital Financing and HQ Redevelopment costs - £0.824m increased spend

There are a range of cost pressures faced by the PCC, to fund the growing capital programme which includes the redevelopment of the HQ site, significant investment in ICT and the transition of the vehicle fleet to electric vehicles by 2035. It is forecast that a significant increase in external borrowing will continue over the next few years and as a result there will be a proportional increase in the level of interest on borrowing paid. In addition, the PCC will be required to make higher levels of Minimum Revenue Provision (MRP) resulting from the funding of the capital programme through the Capital Financing Requirement (CFR). Higher returns on investments are forecast and reflected in an assumed uplift of £0.200m on interest on balances in the 2025/26 budget. See Section 13 Capital for further detail.

f. Specific Grants - £4.630m additional income

An increase in specific grants of £4.630m, was set out in the Provision Police Settlement. See Section 5 above for details.

8. Savings

The savings requirement for 2025/26 totals £7.250m and the following areas have been identified.

Table 10.

	2025/26 £m
TVP Reductions	-0.944
Departmental Efficiencies	-0.939
Beds Cambs Herts (BCH) Collaborated	-1.486
ERSOU Proportionate Savings	-0.156
PCC Proportionate Savings	-0.114
PCSO Reset of Baseline to 142 FTE	-0.720
5% Police Staff Support Department vacancies	-0.640
Workforce Mix (certain functions only)	-1.496
Additional 1% Vacancy Factor	-0.755
Total	**-7.250**

Detail of each saving proposal is set out below:

8.1 Tapered removal of targeted variable payments (TVPs) - £0.944m

The constabulary has made TVPs to Chief Superintendents and Superintendents for a few years. The payments are intended to recognise the added responsibilities held by some officers compared to their peers. The value differs from role to role and not all officers in superintending ranks receive a TVP.

The constabulary also introduced detective TVPs a couple of years ago, partly as a response to a recruitment campaign by the Metropolitan Police targeting detectives, partly to address the relatively low number of accredited detectives in the force.

But the conditions that gave rise to both payments have changed over the last year or so; basic pay for superintending ranks has increased over and above cost of living pay-rises and the constabulary has made good progress in recruiting and retaining detectives.

In light of the changing circumstances, the constabulary proposes to stop making TVPs to all superintending ranks and some detective roles from 1st April 2025, to reduce remaining TVPs by 50% from 1st April 2025 and to withdraw all TVPs completely from 1st April 2026.

8.2 Non-Pay budget reductions - £0.939m

Staff from the Strategic Hub and Finance held meetings with all heads of departments throughout the summer of 2024. As part of this exercise, they explored what each department's budgetary needs would be for 2025/26 and what savings they could offer. The

Heads of Departments offered tactical savings totalling £0.939m that will have little impact on core services. The constabulary will take these savings in full.

8.3 Collaborated department savings - £1.642m

As part of this budget setting exercise, the constabulary asked collaborated functions to find savings proportionate to those needed from non-collaborative functions. This amounted to £1.5m from BCH units and £0.156m from the Eastern Region Specialist Operations Unit (ERSOU).

After much negotiation, savings worth over £3m have been found by BCH collaborated units of which the Hertfordshire share is just over £1.4m. Most of the savings are coming from the removal of vacant posts with little immediate impact on operational delivery.

ERSOU has presented saving options and forces are reviewing them at the time of writing.

8.4 Reduction in OPCC budgets - £0.114m

Proportionate contribution from the OPCC towards the overall savings target, which will be met from a reduction in the Commissioner’s grants budget.

8.5 Resetting PCSO baseline - £0.720m

At the time of writing, the constabulary awaits Home Office confirmation of the 2025/26 Neighbourhood Policing Guarantee PCSO baseline. The baseline is the actual number of PCSOs in neighbourhood roles in 2024/25 and is the measure against which the government will measure delivery of its Neighbourhood Policing Guarantee.

The Home Office consulted the constabulary in late 2024 and suggested a baseline of 142 FTE. Reducing the budgeted establishment to 142 FTE will free up £0.720m of budget and keep the same number of PCSOs in neighbourhood roles in 2025/26 as in 2024/25.

8.6 Removal of police staff vacancies in support departments - £0.640m

For the duration of 2024, hiring managers required the approval of a prioritisation panel before starting external recruitment for police staff roles. In most cases, the panel only approved key operational posts. As a result, the constabulary holds considerable numbers of police staff vacancies in support departments.

Following a review, the constabulary intends to remove thirteen vacant posts from non-operational departments such as Estates & Facilities, Media & Comms and Workforce Development. These reductions will have no immediate impact on service as they have been vacant for many months. The constabulary however will feel an impact in the future as the work the support functions can deliver inevitably declines as staffing reduces.

8.7 Review of the workforce mix in certain areas - £1.496m

The constabulary fills many roles with police staff that are also suitable for police officers. These are accredited investigators and roles in custody. Over the course of the next year the constabulary expects over thirty such roles to become vacant as police staff leave.

The constabulary will review each post as it becomes vacant and decide whether it is still needed and if so whether it is best suited to a police officer or member of police staff. The constabulary predicts saving £1.496m through this exercise.

8.8 Increase police staff vacancy factor - £0.755m

The constabulary does not budget to be at full strength for a full year for the following reasons:

- There is a time delay between people leaving and new employees starting.
- Staff on maternity leave do not receive 100% salary.
- There is no entitlement to full pay if a person is sick for more than 6 months.

The difference between full strength and what the constabulary budgets for is commonly referred to as a vacancy factor. The vacancy factor for 2024/25 stands at around 5%.

The effective freeze on external police staff recruitment will continue into 2025/26 and the number of vacant police staff posts will increase as a result. The additional vacancies will save £0.755m over the course of the year.

Holding ever more vacancies however is not a sustainable long-term financial plan. In the early part of 2025/26 therefore, the constabulary will review some non-operational departments to see what vacant posts can be removed permanently and what the impact would be. As a result, the constabulary will be able to shrink the vacancy factor once again and set a sustainable police staff pay budget for the future.

9. Investment

The following areas have been identified as requiring investment in 2025/26.

Table 11.

	2025/26 £m
Police Officer Overtime	0.305
Police Staff Overtime	0.324
Neighbourhood Policing	0.900
Permanent Increase to PUP baseline	0.300
Total	**1.829**

The constabulary has been piloting some novel technologies in 2024/25 and recognises that artificial intelligence and other technology has the power to improve efficiency in many areas of policing. The full implementation of some of these technologies however is expensive, in some cases prohibitively so given current budget constraints. This is a frustration for both the Chief Constable and the PCC.

Through the coming year, the constabulary will work with the OPCC to understand the long-term funding position and create the investment capacity needed in future years to innovate and improve efficiency. The police funding that government will set out in its multi-year spending review will be pivotal.

In the short term, the constabulary has identified some areas where growth is required to maintain operational effectiveness and deliver on the government's Neighbourhood Policing Guarantee, those are set out below.

9.1 Police officer and police staff Overtime - £0.629m

The constabulary shrunk overtime budgets over recent years by reducing budgets for a few years and in the last couple of years by not growing them in line with pay inflation. Overtime however is a key tool used by the constabulary to manage short term demand and, like all other police forces, could not operate effectively without it. Whilst budgets have shrunk, pressures on policing have not and the constabulary is now in a position where it does not have sufficient overtime budgets to manage day to day demand.

If overtime budgets are not increased, the constabulary will continue to overspend them. The constabulary therefore requires £0.629m growth for 2025/26.

9.2 Neighbourhood policing growth - £0.900m

Hertfordshire is due to receive £1.526m of Neighbourhood Policing grant funding in 2025/26 as set out in the Home Office provisional grant settlement. The Home Office is yet to set out the terms of the grant.

In the absence of detail, the constabulary has assumed growth in expenditure on PCSOs and safer neighbourhood officers to satisfy the grant terms and conditions.

9.3 Permanent Increase to PUP baseline - £0.300m

The Home Office has increased the Uplift baseline target for Hertfordshire for 2025/26 to 2,405 police officers. This increase permanently ‘bakes in’ the overshoot officers the constabulary voluntarily recruited in 2024/25 over and above its previous baseline. The Home Office has provided some additional grant to cover the increase, but it is not enough and the constabulary needs to grow its police officer pay budget by £0.300m as a result.

Further analysis of the gross budget by department, unit and expenditure type can be found in Appendix A.

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

The PCC's overall net revenue budget for 2025/26 has remained at £4.224m, of which £2.773m relates to the Office of the PCC. This represents 0.89% of the Hertfordshire police's gross budget, which is below the government expectations that PCC running costs should not exceed 1% of total policing costs[12].

Table 12

Breakdown	**2024/25**	**2025/26**	**Change**
	£'000	**£'000**	**£'000**
OPCC	2.601	2.651	0.050
Criminal Justice Board (CJB)	0.157	0.122	-0.035
Victims Services	2.608	2.550	-0.058
Road Safety expenditure	0.350	0.350	0.000
PCC Grants	1.227	1.098	-0.129
Savings requirement	0.000	0.114	0.114
PCC Gross Budget	**6.942**	**6.884**	**-0.058**
Road Safety funding	-0.350	-0.350	0.000
Ministry of Justice Grant Income	-2.368	-2.310	0.058
PCC Net Budget	**4.224**	**4.224**	**0.000**

The OPCC and CJB budget net increase of £0.015m, comprising of £0.065m increase in pay costs, primarily due to incremental drift and the September 2024 national pay increase of 4.75%, plus an additional assumed 2.5% increase effective September 2025, which is offset by a reduction in non-pay costs of £0.050m.

The PCC Grants budget has been reduced by £0.129m, which consists of the £0.015m set out above, and a £0.114m contribution to the £7.250m savings target.

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

11. Medium-term Financial Strategy (MTFS)

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

a) That there is no change in the Police Funding formula over the medium term.
b) 2.5% per annum pay award is applied to all officers and police staff. Payable from 1 September each year.
c) Annual increment growth for both police officers and police staff will be matched by the drop in increments through turnover.
d) Non-Pay inflation applied to other areas of expenditure 1.6% in 2025/265 and will rise to 2.0% by 2028/29.
e) The rates of employer's national insurance employer contributions remain the same as those for 2025/26 levels across the MTFS. i.e. will continue to reflect the increase in rate and decrease in threshold introduced from April 2025 in the Autumn budget.
f) Employer superannuation contributions remain the same for both the Police Pension Scheme and the LGPS as in 2024/25 across the MTFS.
g) An increase in the Council Tax Base of 0.50% in 2025/26, 0.60% in 2026/27 and 0.7% per annum thereafter.
h) That the Council Tax collection fund will be in surplus by -£0.269m in 2025/26 and that the surplus will increase marginally each year thereafter.
i) That the precept will increase from 2025/26 by £13 for each year of the MTFS.

The table below summaries the assumptions listed above.

Table 13

Budget element	2025/26	2026/27	2027/28	2028/29
Pay Awards %	2.50	2.50	2.50	2.50
Non-Pay Inflation %	1.60	1.70	2.00	2.00
Core Grant %	3.45	1.70	2.00	2.00
Taxbase %	0.51	0.60	0.70	0.70
Collection Fund Surplus £'000	-0.269	-0.287	-0.337	-0.387
Min Precept increase £	14.00	13.00	13.00	13.00

The assumed changes in government grant levels over the medium-term are set below.

Table 14

Grant element	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Core Grant	-145.017	-147.656	-150.814	-154.035
Council Tax Legacy Grant	-10.228	-10.228	-10.228	-10.228
Total	**-155.245**	**-157.884**	**-161.042**	**-164.263**
Change on previous year (£m)		-2.639	-3.158	-3.221
Change on previous year (%)		1.7%	2.0%	2.0%

The standstill budget requirements for the period to 2027/28 totals £46.4m and comprises the following:

Table 15

Standstill Costs	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Total £m
Officer Pay	11.745	4.055	4.154	4.258	**24.212**
Staff Pay	7.449	2.258	2.314	2.372	**14.393**
Non-Pay	2.587	1.247	1.814	1.823	**7.471**
Capital Financing	0.824	0.150	3.461	0.475	**4.910**
Specific Grants	-4.630	0.000	0.000	0.000	**-4.630**
Total	**17.975**	**7.710**	**11.743**	**8.928**	**46.356**

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

Table 16

Budget Element	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Total £m
Standstill costs	17.975	7.710	11.743	8.928	**46.356**
Core Grant	-5.173	-2.639	-3.158	-3.221	**-14.191**
Taxbase & Collection Fund	-0.740	-0.796	-0.969	-1.019	**-3.524**
Precept increase	-6.573	-6.140	-6.183	-6.226	**-25.122**
Investment	1.829	2.779	2.716	0.900	**8.224**
Contribution to Reserves	-	-	-	2.800	**2.800**
Budget Gap	**-7.250**	**-0.914**	**-4.149**	**-2.162**	**-14.475**

The table above shows the medium-term financial strategy based upon high level spending and income assumptions and the Autumn Budget statement. The plan sets out a budget gap of £7.250m in 2025/26 and £14.475m by 2028/29.

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

Table 17

Variable	**1% Variance (£m) (+/-)**
Police Pay	0.915
PCSO/Police Staff Pay	0.480
Utilities	0.030
Fuel	0.015
Supplies and Services	0.353
Police Grant	-1.501
Precept	-1.178
Tax Base	-1.172

Based on the above table the main risks to the force are uncertainties in the funding settlement from central government, the PCC precept decision, any pay award to officers and staff above the 2.5% increase assumed.

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

12. Medium-term savings proposals

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

Table 18

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Total £m
Budget Gap (post investment)	**-7.250**	**-0.914**	**-4.149**	**-2.162**	**-14.475**
TVP Reductions	-0.944	-0.642	-	-	**-1.586**
Departmental Efficiencies	-0.939	-	-	-	**-0.939**
Beds Cambs Herts Collaborated	-1.486	-0.056	-0.850	-0.443	**-2.835**
ERSOU Proportionate Savings	-0.156	-0.006	-0.089	-0.047	**-0.298**
PCC Proportionate Savings	-0.114	-0.004	-0.066	-0.034	**-0.218**
PCSO Reduction to Baseline	-0.720	-	-	-	**-0.720**
10% Reduction in Fleet	-	-0.206	-0.206	-	**-0.412**
5% Police Staff Support Department Vacancies	-0.640	-	-	-	**-0.640**
Workforce Mix (certain functions only)	-1.496	-	-1.300	-	**-2.796**
30% Reduction in Estate (Rates, Utilities, Water etc.)	-	-	-1.638	-1.638	**-3.276**
Additional 1% Vacancy Factor	-0.755	-	-	-	**-0.755**
Net Annual Budget Gap	**0**	**0**	**0**	**0**	
Cumulative Budget Gap	**0**	**0**	**0**	**0**	

2025/26 and beyond savings

In addition to the savings identified for 2025/26, as set out in Section 8, future areas of planned savings include:

- TVP Reductions £0.642m from completion of the phased full removal of the TVP for detectives in 2026/27.
- Collaboration £1.491m from the generation of further proportional savings from BCH and ERSOU collaborated units.
- PCC £0.104m of further proportional savings.
- Fleet £0.412m. The analysis of telematic data indicates that the vehicle fleet can be reduced by circa 10% through fuller utilisation of vehicles. This will also impact on the fleet renewal element of the capital programme.
- Workforce Mix £1.300m. Savings against police staff budgets from further work to review the current mix of police officers and police staff in equivalent roles.

- Estates £3.276m. A 30% reduction in estate running costs through rationalisation of the estate. This will be achieved by ensuring full leverage from the benefits present by the new HQ building (allowing relocation and potential disposal of surplus sites – dependent on the outcome of the Estates Strategy) and the adoption of more energy efficiency practices.

13. Capital Programme

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

Table 19

Capital Programme*	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m	2031/32 £m	2032/33 £m	2033/34 £m	2034/35 £m	Total £m
HQ Redevelopment	33.359	9.927	-	-	-	-	-	-	-	-	**43.286**
Building Improvement & Sustainability	0.750	0.450	0.450	0.450	0.450	0.450	0.450	0.450	0.450	0.450	**4.800**
ICT	2.781	2.781	2.781	2.781	2.781	2.781	2.781	2.781	2.781	2.781	**27.810**
Fleet	2.717	2.780	2.836	2.893	2.951	3.010	3.070	3.131	3.194	3.258	**29.840**
ESN	-	2.306	2.623	0.935	-	-	-	-	-	-	**5.864**
ANPR	0.260	0.260	0.060	0.060	0.060	0.060	0.060	0.060	0.060	0.060	**1.000**
BCH Unit Capital Programme	0.135	0.135	0.135	0.135	0.135	0.135	0.135	0.135	0.135	0.135	**1.350**
Taser	0.205	0.175	0.175	0.175	0.175	0.175	0.175	0.175	0.175	0.175	**1.780**
Total Capital	**40.207**	**18.814**	**9.060**	**7.429**	**6.552**	**6.611**	**6.671**	**6.732**	**6.795**	**6.859**	**115.730**

*Figures for the capital programme and associated capital financing are based on Q3 monitor and so may be subject to change from movements in slippage from 2024/25.

This draft programme also includes the following one-off and cyclical projects:

i. HQ Redevelopment – the budget includes £0.635m forecast slippage from 2024/25 and capitalisation of interest charges totalling £2.677m.
ii. Building Improvement & Sustainability spend of £0.750m in 2025/26 onwards including investment towards meeting the government mandate to reduce direct emissions by 50% (compared to a 2017 baseline) by 2032.
iii. Funding totally £2.781m for investment in ICT programmes including the replacement of end-of-life hardware and investment in new systems.
iv. The Constabulary operates a sizeable fleet of operational vehicles which, due to high levels of use, are replaced on a periodic basis. £2.717m will be required for the purchase of replacement vehicles in 2025/26. At this stage plans to reduce the fleet by 10% have not been included in the capital programme nor has the cost of electrification of the fleet.

The above draft capital programme will be funded as follows:

Table 20

Financing	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**	**2029/30 £m**	**2030/31 £m**	**2031/32 £m**	**2032/33 £m**	**2033/34 £m**	**2034/35 £m**	**Total £m**
Capital Receipts	6.098	8.437	8.610	2.500	-	-	-	-	-	-	**25.645**
Borrowing	34.109	10.377	0.450	4.929	6.552	6.611	6.671	6.732	6.795	6.859	**90.085**
Total Financing	**40.207**	**18.814**	**9.060**	**7.429**	**6.552**	**6.611**	**6.671**	**6.732**	**6.795**	**6.859**	**115.730**

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

Table 21

CFR	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**	**2029/30 £m**	**2030/31 £m**	**2031/32 £m**	**2032/33 £m**	**2033/34 £m**	**2034/35 £m**
Opening Balance	-93.284	-123.574	-130.331	-127.207	-128.332	-131.504	-134.032	-135.383	-135.604	-135.093
New CFR	-34.109	-10.377	-0.450	-4.929	-6.552	-6.611	-6.671	-6.732	-6.795	-6.859
MRP reduces CFR	3.819	3.620	3.574	3.804	3.381	4.083	5.320	6.511	7.306	7.285
Closing Balance	**-123.574**	**-130.331**	**-127.207**	**-128.332**	**-131.503**	**-134.032**	**-135.383**	**-135.604**	**-135.093**	**-134.667**

The level of CFR is used to control the level of external debt that can be incurred since the level of borrowing cannot, other than in the short term, exceed the CFR. It is anticipated the following levels of external borrowing will be required to main a minimum working cash balance of £5.0m at the end of each financial year. It should be noted that borrowing is only incurred to ensure liquidity and as such is not matched against individual assets.

Table 22

Borrowing	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**	**2029/30 £m**	**2030/31 £m**	**2031/32 £m**	**2032/33 £m**	**2033/34 £m**	**2034/35 £m**
Opening Balance	93.700	113.700	124.700	127.700	128.700	128.700	128.700	128.700	128.700	128.700
New Debt	20.000	11.000	3.000	1.000	-	-	-	-	-	-
Repaid Debt	-	-	-	-	-	-	-	-	-	-
Closing Balance	113.700	124.700	127.700	128.700	128.700	128.700	128.700	128.700	128.700	128.700

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

Table 23

Capital Financing	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**	**2029/30 £m**	**2030/31 £m**	**2031/32 £m**	**2032/33 £m**	**2033/34 £m**	**2034/35 £m**
MRP	3.819	3.620	3.574	3.804	3.381	4.083	5.320	6.511	7.306	7.285
Interest Paid	1.884	2.234	6.614	6.890	6.087	5.850	5.141	5.141	5.141	5.141
Return on Investments	-0.300	-0.300	-0.300	-0.300	-0.300	-0.300	-0.300	-0.300	-0.300	-0.300
Total	**5.403**	**5.554**	**9.888**	**10.394**	**9.168**	**9.633**	**10.161**	**11.352**	**12.147**	**12.126**
% of NRE	2.0%	2.0%	3.4%	3.5%	2.9%	3.0%	3.1%	3.4%	3.5%	3.5%

A flat rate assumption of £300k p.a. of investment income has been included above primarily from the current £2.5m held in the CCLA Property Fund and also interest earnt on any surplus cash held.

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

Appendix A - Revenue Budget Detail[13]

The 2025/26 gross to net budget and its prior year comparator are shown below:

Table 24

Gross to Net Budget	**2024/25 £m**	**2025/26 £m**
Gross Budget	**296.0**	**313.2**
Fees & Charges	-7.7	-7.7
Other Grants	-20.0	-24.5
Local Authority PCSO funding	-0.4	-0.4
Reserves	-0.5	-0.5
Net Budget	**267.4**	**279.9**

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

Table 25

Portfolio	**Gross Budget 2024/25 £m**	**Gross Budget 2025/26 £m**	**Change £m**	**Change %**
Operational Delivery	145.0	154.6	9.6	6.6
Strategy & Prevention	37.2	41.8	4.6	12.4
Deputy Chief Constable Budgets	4.4	4.5	0.1	2.3
Resources	18.1	19.3	1.2	6.6
Corporate Budgets	14.9	14.6	-0.3	-2.0
Collaborated BCH	59.8	61.5	1.7	2.8
Collaborated Regional	1.2	1.2	0.0	-
Collaborated National	7.0	7.2	0.2	2.9
PCC	8.4	8.5	0.1	1.2
Total	**296.0**	**313.2**	**17.2**	**5.8**

[13] There may be arithmetic differences due to rounding

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

Table 26

Expenditure type	2024/25 £m	2025/26 £m	Change £m	Change %
Police Officer Pay	153.1	164.8	11.7	7.6
Police Officer Overtime	4.2	4.8	0.6	14.3
Police Staff Pay	82.5	85.4	2.9	3.5
Police Staff Overtime	0.8	1.1	0.3	37.5
Employee Related Expenditure	2.9	2.8	-0.1	-3.4
Premises Cost	10.8	10.2	-0.6	-5.6
Transport Costs	3.6	4.6	1.0	27.8
Supplies And Services	32.0	33.4	1.4	4.7
Capital Financing	4.6	6.0	1.4	30.4
Fees And Charges	-7.7	-7.7	0.0	-
Specific Grants	-18.5	-24.6	-6.1	33.0
Partner Contributions	-0.4	-0.4	0.0	-
Net Use of Reserves	-0.5	-0.5	0.0	-
Total Net Budget	**267.4**	**279.9**	**12.5**	**4.7**

Further detail, by department, is presented overleaf:

Table 27

	Gross Budget 2024/25	Standstill Spend Pressures	Savings	Investment & Growth	DRAFT Gross Budget 2025/26	Movement	Movement
	£m	£m	£m	£m	£m	£m	%
Protective Services - Beds lead							
Armed Policing Unit (BCH)	4.9	0.3	-0.1	0.0	5.1	0.2	4.08
Protective Crime Command (BCH)	0.7	0.0	0.0	0.0	0.7	0.0	-
Dog Unit (BCH)	1.6	0.1	0.0	0.0	1.7	0.1	6.25
Major Crime Unit (BCH)	4.1	0.3	-0.1	0.0	4.3	0.2	4.88
Operational Support Units (BCH)	0.5	0.0	0.0	0.0	0.5	0.0	-
Civil Contingency Units (BCH)	0.2	0.0	0.0	0.0	0.2	0.0	-
Roads Policing Units (BCH)	6.1	0.4	-0.2	0.0	6.3	0.2	3.28
Scientific Services Unit (BCH)	5.7	0.3	-0.2	0.0	5.8	0.1	1.75
Sub-total Protective Services	**23.8**	**1.4**	**-0.6**	**0.0**	**24.6**	**0.8**	**3.36**

	Gross Budget 2024/25	Standstill Spend Pressures	Savings	Investment & Growth	DRAFT Gross Budget 2025/26	Movement	Movement
	£m	£m	£m	£m	£m	£m	%
Operational Support - Herts lead							
Collaborated Criminal Justice	1.5	0.1	0.0	0.0	1.6	0.1	6.67
Camera Tickets & Collisions	2.5	0.1	0.0	0.0	2.6	0.1	4.00
Firearms Licensing	0.6	0.0	0.0	0.0	0.6	0.0	-
ICT	15.0	0.4	-0.4	0.0	15.0	0.0	-
Delivery Management Office	0.8	0.1	0.0	0.0	0.9	0.1	12.50
Sub-total Operational Support	**20.4**	**0.7**	**-0.4**	**0.0**	**20.7**	**0.3**	**1.47**
Organisational Support - Cambs lead							
Human Resources	9.6	0.6	-0.3	0.0	9.9	0.3	3.12
Information Management Dept	2.8	0.2	-0.1	0.0	2.9	0.1	3.57
Professional Standards Unit	2.8	0.2	-0.1	0.0	2.9	0.1	3.57
Uniform Stores	0.2	0.0	0.0	0.0	0.2	0.0	-
Payroll	0.3	0.0	0.0	0.0	0.3	0.0	-
Sub-total Organisational Support	15.7	1.0	-0.5	0.0	16.2	0.5	3.18
Total BCH	**59.9**	**3.1**	**-1.5**	**0.0**	**61.5**	**1.6**	**2.67**

	Gross Budget 2024/25	Standstill Spend Pressures	Savings	Investment & Growth	DRAFT Gross Budget 2025/26	Movement	Movement
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
Operational Delivery							
Crime	28.5	2.1	-0.2	0.1	30.5	2.0	7.02
Local Policing Command	109.9	8.0	-1.3	0.0	116.6	6.7	6.10
Police Uplift Programme	6.9	0.5	0.0	0.3	7.7	0.8	11.59
Sub-total Operational Delivery	**145.3**	**10.6**	**-1.5**	**0.4**	**154.8**	**9.5**	**6.54**
Strategy & Prevention							
Collab Custody & CJ	0.7	0.1	0.0	0.0	0.8	0.1	14.29
Force Communications Room	18.8	2.9	0.0	0.5	22.2	3.4	18.09
Operations	3.2	0.2	0.0	0.0	3.4	0.2	6.25
Org Strategy, Performance & Analysis	2.5	0.2	0.0	0.0	2.7	0.2	8.00
Operational Strategy	1.1	0.1	0.0	0.0	1.2	0.1	9.09
Custody	7.4	0.5	-0.1	0.0	7.8	0.4	5.41
Change Delivery Team	3.3	0.2	0.0	0.0	3.5	0.2	6.06
Sub-total Strategy & Prevention	**37.0**	**4.2**	**-0.1**	**0.5**	**41.6**	**4.6**	**12.43**

	Gross Budget 2024/25	Standstill Spend Pressures	Savings	Investment & Growth	DRAFT Gross Budget 2025/26	Movement	Movement
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
Deputy Chief Constable							
Corporate Communications	1.2	0.1	0.0	0.0	1.3	0.1	8.33
Insurance	1.6	0.0	0.0	0.0	1.6	0.0	-
Legal Services	1.1	0.0	0.0	0.0	1.1	0.0	-
Design & Print Service	0.4	0.0	0.0	0.0	0.4	0.0	-
Sub-total Deputy Chief Constable	4.3	0.1	0.0	0.0	4.4	0.1	2.33
Resources							
Estates And Facilities	11.5	1.4	-0.7	0.0	12.2	0.7	6.09
People & Workforce Develop	5.0	0.4	-0.1	0.0	5.3	0.3	6.00
Finance	1.7	0.1	0.0	0.0	1.8	0.1	5.88
Sub-total Resources	**18.2**	**1.9**	**-0.8**	**0.0**	**19.3**	**1.1**	**6.04**

	Gross Budget 2024/25	Standstill Spend Pressures	Savings	Investment & Growth	DRAFT Gross Budget 2025/26	Movement	Movement
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
Corporate budgets							
Capital Financing	4.6	0.8	0.0	0.0	4.6	5.4	0.8
Force Account	8.1	1.0	-3.1	0.9	7.8	7.0	-1.1
Major Incidents	0.1	0.0	0.0	0.0	0.1	0.0	-
Pensions & Redundancies	1.1	0.0	0.0	0.0	1.1	0.0	-
Secondments	0.5	0.0	0.0	0.0	0.5	0.0	-
Staff Associations	0.5	0.0	0.0	0.0	0.5	0.0	-
Uniforms	1.0	0.0	0.0	0.0	1.0	0.0	-
Fleet	-1.2	0.1	0.0	0.0	-1.1	0.1	-8.33
Sub-total Corporate	14.7	1.9	-3.1	0.9	14.5	-0.2	-1.36
Total Herts Only	**219.5**	**18.7**	**-5.5**	**1.8**	**234.6**	**15.1**	**6.88**
E R S O U (Regional)	6.6	0.4	-0.2	0.0	6.8	0.2	3.03
7F Commercial Services	0.4	0.0	0.0	0.0	0.4	0.0	-
Air Support Unit (NPAS)	1.2	0.1	0.0	0.0	1.3	0.1	8.33
Sub-total Regional & National Collaboration	**8.2**	**0.5**	**-0.2**	**0.0**	**8.5**	**0.3**	**3.66**
Total Constabulary	**287.6**	**22.3**	**-7.2**	**1.8**	**304.6**	**17.0**	**5.91**
Police & Crime Commissioner							
PCC Commissioning Budget	5.8	0.1	0.0	0.0	5.9	0.1	1.72
Office Of The PCC	2.6	0.2	-0.1	0.0	2.7	0.1	3.85
Sub-total PCC	**8.4**	**0.3**	**-0.1**	**0.0**	**8.6**	**0.2**	**2.38**
Total Hertfordshire	**296.0**	**22.6**	**-7.3**	**1.8**	**313.2**	**17.1**	**5.81**

Appendix B - Precept Summary

Table 28

	£'000
Budget Requirement	279,930
Less Government Funding	(155,245)
To be met from council tax (incl. collection fund)	**124,685**

To be collected from the 10 Billing Authorities as follows:

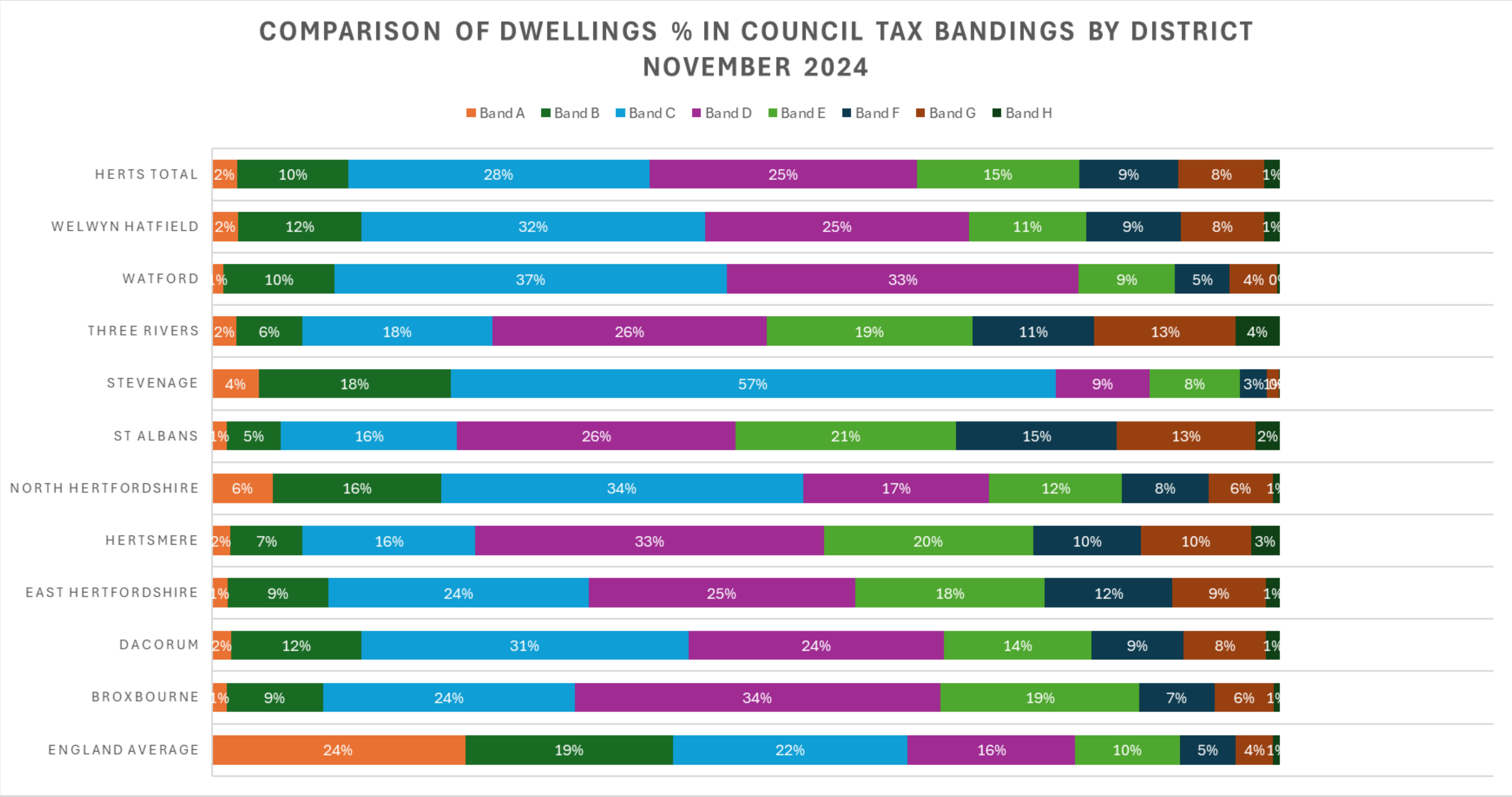
Billing Authority	2025/26 Tax Base	Precept Amount @ £265	Draft Surplus/ (Deficit) on Collection Fund	Total Payments Due
	No.	£	£	£
Broxbourne Borough Council	36,636.03	9,708,546.89	-110,807.67	9,597,739.22
Dacorum Borough Council	60,250.18	15,966,298.89	29,742.21	15,996,041.10
East Herts District Council	65,314.00	17,308,210.00	63,499.61	17,371,709.61
Hertsmere Borough Council	43,331.04	11,482,725.60	34,282.00	11,517,007.60
North Herts District Council	50,823.00	13,468,095.00	133,585.90	13,601,680.90
St Albans District Council	64,632.20	17,127,533.00	460,508.00	17,588,041.00
Stevenage Borough Council	28,571.80	7,571,527.00	-205,593.15	7,365,933.85
Three Rivers District Council	40,038.90	10,610,308.50	-118,853.00	10,491,455.50
Watford Borough Council	35,648.70	9,446,906.70	-1,178.47	9,445,728.23
Welwyn Hatfield District Council	44,250.40	11,726,354.68	-16,482.54	11,709,872.14
TOTAL	**469,496.25**	**124,416,506.26**	**268,702.90**	**124,685,209.16**

Based on the following valuation bandings:

Table 29

Band	A	B	C	D	E	F	G	H
Proportion of Band D charge	6/9ths	7/9ths	8/9ths	**9/9ths**	11/9ths	13/9ths	15/9ths	18/9ths
2024/25 Charge £	167.33	195.22	223.11	**251.00**	306.78	362.56	418.33	502.00
2025/26 Charge £	176.67	206.11	235.56	**265.00**	323.89	382.78	441.67	530.00
Precept increase £ per annum	9.34	10.89	12.45	**14.00**	17.11	20.22	23.34	28.00
Precept increase £ per month	0.78	0.91	1.04	**1.17**	1.43	1.69	1.95	2.33
Precept increase £ per week	0.18	0.21	0.24	**0.27**	0.33	0.39	0.45	0.54
Precept increase £ per day	0.03	0.03	0.03	**0.04**	0.05	0.06	0.06	0.08

Graph 6



COMPARISON OF DWELLINGS % IN COUNCIL TAX BANDINGS BY DISTRICT NOVEMBER 2024
Band A
Band B
Band C
Band D
Band E
Band F
Band G
Band H
HERTS TOTAL
WELWYN HATFIELD
WATFORD
THREE RIVERS
STEVENAGE
ST ALBANS
NORTH HERTFORDSHIRE
HERTSMERE
EAST HERTFORDSHIRE
DACORUM
BROXBOURNE
ENGLAND AVERAGE
2% 10% 28% 25% 15% 9% 8%
2% 12% 32% 25% 11% 9% 8%
10% 37% 33% 9% 5% 4%
2% 6% 18% 26% 19% 11% 13% 4%
4% 18% 57% 9% 8% 3%
5% 16% 26% 21% 15% 13% 2%
6% 16% 34% 17% 12% 8% 6%
7% 16% 33% 20% 10% 10% 3%
9% 24% 25% 18% 12% 9%
12% 31% 24% 14% 9% 8%
9% 24% 34% 19% 7% 6%
24% 19% 22% 16% 10% 5% 4%

Appendix C - Statutory assurances & strategies

Section 25 of the Local Government Act 2003 requires that when a local authority is agreeing its annual budget and council tax precept, the chief finance officer must report to it on the following matters:

- The robustness of the estimates
- The adequacy of the proposed financial reserves

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

- Treasury Management Strategy (TMS)
- Minimum Revenue Provision (MRP)
- Capital Strategy

Also, the PCC is reminded that it is their responsibility for setting the annual budget and council tax precept for 2025/26, which should also take into account whether the budget and service plans are relevant, affordable, and sustainable in the longer-term. In doing so, he will need to satisfy himself that services and resource allocation have been appropriately prioritised and that financial risks have been adequately addressed and covered by, for example, reserves, contingencies, or risk mitigation plans.

ROBUSTNESS OF ESTIMATES

Introduction

This report is prepared in accordance with Section 25 of the Local Government Act 2003, which mandates the Section 151 Officer to assess the robustness of budget estimates and the adequacy of reserves during budget setting. This document outlines the key risks associated with the 2025/26 police budget assumptions within the current macroeconomic landscape.

1. Government Funding and Grant Allocations

Government grants constitute the organisation's primary income source, representing 56% of its total revenue. This significant reliance on central funding poses a substantial risk.

- **Assumption:** Moderate increases in central government funding are anticipated over the medium term, ranging from 1.70% to 2.0%.
- **Risk:** Potential underfunding may arise from reduced government grant allocations due to broader fiscal pressures.
- **Mitigation:**
  - Actively engage in lobbying efforts through representative bodies (e.g., APCC, NPCC, PACCTS).
  - Conduct scenario planning for reduced funding levels, including the identification of non-critical services for potential scaling back.
  - Closely monitor government announcements to promptly adjust forecasts.
  - Provide robust data to support the Home Office in its submissions to the Treasury.

2. Inflation Rates

- **Assumption:** General inflation is expected to revert to the government's target of 2.0% over the medium term.
- **Risk:** Higher-than-expected inflation could lead to increased operational and contractual costs.
- **Mitigation:**
  - Incorporate an inflation contingency into the budget to absorb potential

    cost increases.
    - Negotiate long-term fixed-price contracts for key supplies and services whenever feasible.
    - Implement cost-control measures to reduce discretionary expenditure.

3. Pay Awards

- **Assumption:** Police pay increases are projected to remain consistent at 2.5% over the next four years, and the government will provide funding for any increase exceeding this amount.
- **Risk:** The police staff attrition rate may not deliver the required vacancy levels to achieve the savings target, potentially resulting in a higher-than-budgeted establishment.
    - Furthermore, any government top-up grant, based on previous apportionment methodologies, may be insufficient to fully compensate for any pay increase.
    - Government compensation percentage baseline figure may be higher than the 2.5% assumed thereby requiring the organisation to find the shortfall e.g. extra 0.3% pay award would equate to an extra £0.275m in 2025/26 (w.e.f. September 2025) with a full-year effect of £0.471m.
- **Mitigation:**
    - Lobby the government for additional funding to cover 100% of any pay increase.
    - Identify additional in-year savings to offset increased pay costs.
    - Consider unavoidable draws on reserves.
    - Assist national bodies in their submissions to the Police Remuneration Review Body (PRRB), emphasising the affordability of pay increases for forces, particularly in the absence of additional government funding.

4. Demand for Police Services

- **Assumption:** Demand for police services is expected to remain stable, with no significant changes in crime patterns.
- **Risk:** Increased demand may arise due to unforeseen events or emerging threats.

- **Mitigation:**
    - Strengthen partnerships with local authorities and community groups to address the root causes of crime.
    - Use data analytics to effectively predict and manage demand.
    - Maintain flexible deployment plans to swiftly reallocate resources as needed.

5. Pension Costs

- **Assumption:** Employer pension contributions for both police officers and staff will remain consistent with 2024/25 levels.
- **Risk:** Changes to actuarial valuations or government policy could necessitate increased contributions.
- **Mitigation:**
    - Collaborate with pension fund managers to monitor funding levels and assess risks.
    - Incorporate a modest contingency for potential pension cost increases.
    - Advocate for national reviews to manage long-term public sector pension liabilities

6. Capital Programme

- **Assumption:** The 10-year, £133 million capital program will be financed through planned borrowing from the Public Works Loan Board (PWLB) and capital receipts.
- **Risk:** Increased interest rates may elevate borrowing costs, impacting the affordability of capital projects.
- **Mitigation:**
    - Prioritise critical capital projects and defer non-urgent investments whenever possible.
    - Consider alternative funding sources such as the National Wealth Fund.
    - Monitor interest rate trends and explore refinancing opportunities if rates stabilise or decrease.
    - Use fixed-rate products to minimise interest rate risk and varying durations to lessen refinancing risk.

7. Council Tax

This revenue source accounts for almost 44% of the organisation's income.

- **Precept Levels:**
  - **Assumption:** A council tax precept increase of approximately 6% will be approved without significant resistance.
  - **Risk:** Public opposition to tax increases could limit the ability to raise the precept.
  - **Mitigation:**
    - Conduct early and transparent public consultations to explain the rationale for the precept increase.
    - Highlight the link between the precept and tangible community safety improvements.
- **Collection Fund:**
  - **Assumption:** The Collection Fund is expected to maintain a surplus over the medium term, with a £0.050 million increase per annum.
  - **Risk:** Unpredictable year-on-year fluctuations, potentially shifting from surplus to deficit, pose a significant risk.
  - **Mitigation:**
    - Monitor district council tax collection levels to facilitate early identification of impacts on subsequent years.
- **Taxbase:**
  - **Assumption:** The number of chargeable dwellings is projected to increase year-on-year by 0.6% or 0.7%.
  - **Risk:** The level of development in the county may be lower than anticipated and below the levels assumed by the Office of Budget Responsibility (OBR).
  - **Mitigation:**
    - Monitor district in-year council tax returns to the Ministry of Housing, Communities & Local Government (MHCLG) to facilitate early identification of any increases or decreases.

8. Reserves and Contingency

- **Assumption:** Reserves are deemed adequate to cover unforeseen short-term pressures.
- **Risk:** Depletion of reserves due to unforeseen events could jeopardize financial stability.
- **Mitigation:**
    - Adopt a clear reserves policy that establishes thresholds for minimum levels.
    - Replenish reserves during years of budget surpluses.
    - Continuously monitor emerging risks to avoid over-reliance on reserves.

9. Efficiency Savings

- **Assumption:** Identified efficiency savings of £7.25 million are expected to be achieved in 2025/26.
- **Risk:** Failure to deliver planned savings could result in a budget gap.
- **Mitigation:**
    - Establish a dedicated efficiency taskforce to monitor and deliver savings.
    - Use benchmarking to identify further areas for cost reduction.
    - Incorporate a risk-adjusted approach to forecasting savings and include alternative measures in case initial plans fall short.

10. Other Income:

This category primarily relies on income from road traffic offense training and partner contributions for local PCSO roles. The National Driver Offender Retraining Scheme (NDORS) funds both the Camera, Tickets and Collisions (CTC) unit and contributes to the Commissioner's Road Safety Fund.

- **Risk:** This self-limiting revenue model creates a paradoxical "Catch-22" situation: reducing speeding (CTC's goal) directly decreases revenue, leading to unpredictable demand-driven volatility and financial uncertainty for the organisation.
    - Additionally, some partner organisations, such as district and parish councils, have ceased funding PCSOs, and this reliance poses a potential withdrawal risk. As partner finances tighten, contributions may

dwindle, further straining the organisation's budget.

- **Mitigation:**
  - The organisation could reduce its dependence on these income streams by establishing a baseline budget requirement or creating specific reserves to cushion any downward movement. However, the one-off nature of reserves does not address any underlying permanent deficit. Unfortunately, the organisation's current financial position hinders the immediate implementation of these mitigation strategies.
  - Therefore, addressing the risks associated with NDORS revenue and partner contributions will require strategic financial planning and ongoing resource allocation.

11. Officer Numbers

- **Assumption:** Continuation of the Police Uplift Target maintenance, where the police officer headcount will be maintained at 2,405, and the two in-year checkpoints will be continued by the new government.
- **Risk:** Non-achievement of the target at one or both checkpoint dates (September 30 and March 31) will lead to a reduction in grant funding per officer below the target.
- **Mitigation:**
  - Liaise with the government if levels drop significantly below the target and the financial impact becomes unmanageable.
  - Conduct accurate workforce planning to manage the timing of recruit cohorts and track officer attrition levels.

12. Legislative Changes

- **Assumption:** The government will extend the IFRS 9[14] statutory override on the accounting treatment of potential losses on the organisation's CCLA property fund holding of £2.5 million.
- **Risk:** Removal of the temporary statutory override after March 31, 2025, would crystallise any unrealised losses within the fund, currently this would equate to a £0.251m (December 2024).

[14] IFRS9 – Financial Instruments – treatment of pooled funds

- **Mitigation:**
    - Explore disposal options for the fund holding.
    - Consider creating a provision or contingent liability to address potential losses.
    - Respond to consultations and lobby the government to make the existing policy permanent.

13. Comprehensive Spending Review (CSR)

- **Assumption:** The upcoming CSR will have a neutral effect on Hertfordshire's finances.
- **Risk:** The CSR could lead to further budget cuts or policy changes that negatively impact the police force.
- **Mitigation:**
    - Maintain strong financial performance and demonstrate service effectiveness.
    - Engage with stakeholder groups to advocate for the police force's needs.
    - Provide evidence for inclusion in national submissions to HM Treasury, advocating for appropriate single or multi-year police settlements.

14. Legal Claims

- **Assumption:** The current level of provisions is sufficient to cover claims becoming payable in the current year.
- **Risk:** Insufficient resources may be available to cover the level of potential insurance and legal claims.
    - Moreover, accurately quantifying the level of potential payouts presents a significant challenge.

- The last actuarial valuation[15] of the organisation's requirement for a reserve for self-insured claims[16] was £5.0 million, however, there is currently insufficient headroom within either the revenue budget or reserves to increase this level.

- **Mitigation:**
  - Robustly defend claims where appropriate to minimise the level of settlements.
  - Regularly review and assess claims to identify any patterns and, if possible, address the root causes.
  - Maintain prudent reserve allocations when resources permit.

Conclusion

The 2025/26 police budget faces significant risks due to the volatile macroeconomic environment, including inflationary pressures, constrained public funding, and potential increases in demand for police services. Robust financial monitoring, contingency planning, and proactive engagement with government and stakeholders will be critical to mitigating these risks.

While the adequacy of reserves provides a buffer, reliance on these should be minimised to maintain long-term financial sustainability.

Declaration

This report underscores the importance of prudence in budget-setting and the need for contingency measures to address potential financial shocks. As Section 151 Officer, I confirm that the budget estimates have been prepared with due regard to these risks and the current economic climate.

Ian Rooney

[15] Gallagher report – as at 31 March 2023

[16] Employers Liability, Public Liability and Motor (Third Party Liability)

RESERVES STRATEGY

Introduction

The Local Government Finance Act 1992 mandates that both billing and precepting authorities in England and Wales consider the level of reserves required to meet estimated future expenditure when determining their budget requirements. This strategy outlines a comprehensive approach to reserve management aimed at ensuring the financial resilience of Hertfordshire Constabulary for effective policing within the county.

Vision

To ensure Hertfordshire Constabulary possesses the financial resources necessary to effectively fulfil its mission of protecting the public and serving the community, while maintaining fiscal responsibility and transparency.

Background

In a dynamic environment characterised by evolving crime trends and uncertain funding, Hertfordshire Constabulary requires a robust reserves strategy to navigate unforeseen challenges. Furthermore, recent instances of local authorities facing financial difficulties and issuing Section 114 notices underscore the critical importance of a strong financial foundation for police forces. Maintaining an adequate level of general reserves is essential as a contingency fund to address unforeseen challenges, ensuring operational stability and the ability to respond effectively to emergencies.

Current Reserve Levels and Usage

As of 31 March 2024, Hertfordshire Constabulary held £18.4m (£24.3m as of 31 March 2023) in total reserves, categorised into general reserves (£12.6m) and earmarked reserves (£5.8m). In the 2024/25 financial year, £3.4m is projected to be drawn down from reserves, primarily to address the anticipated £2.6m overspend on the revenue budget. This will reduce the budget support reserve to £2.4m(0.8% of the gross budget), leaving the organisation with total reserves of £15m, or 4.0% of the gross budget. This level falls below the Chief Finance Officer's recommended level of 5%.

The table below outlines the anticipated reserve levels held by the PCC as of April 2025 and their projected use in 2025/26.

Table 1.

	Balance As at 31/3/24	2024/25 Transfers		Balance Estimate 31/3/25	2025/26 Transfers		Balance Estimate 31/3/26
		Out	In		Out	In	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Base Budget Support reserve	**3,766**	-2,586	0	**1,180**	0	0	**1,180**
Road Safety Fund	**1,539**	-350	0	**1,189**	-350	0	**839**
Police Property Act Fund	**34**	0	0	**34**	0	0	**34**
Unconditional Funding reserve	**485**	-485	0	**0**	0	0	**0**
Total Specific Reserves	**5,824**	**-3,421**	**0**	**2,403**	**-350**	**0**	**2,053**
Police Fund/General Reserve	**12,600**	0	0	**12,600**	0	0	**12,600**
Total Reserves	**18,424**	**-3,421**	**0**	**15,003**	**-350**	**0**	**14,653**

General Reserve

The General Reserve (or Police Fund) serves as a statutory contingency reserve to fund unplanned and emergency expenditure, such as exceptional or extraordinary policing operations and major incidents.

For the 2025/26 budget, the PCC has maintained the level of general reserves at £12.6m (or 4.0% of the £313m gross budget). This level is significantly below the 5% deemed appropriate and prudent by the Chief Finance Officer. However, due to insufficient funds within other reserves and the revenue budget, increasing the reserve to approximately £15.7m (over 5%) is currently not feasible. Nevertheless, this level will provide some resilience against unexpected financial headwinds while operating within existing budget constraints.

Earmarked Reserves

The table above presents the funds expected to be available in 2025/26. These funds include:

Budget Support Reserve: This reserve is maintained to manage the financial risks associated with day-to-day revenue expenditure and facilitate the smoothing of in-year or year-on-year spending fluctuations. No planned utilisation is foreseen for 2025/26. However, the remaining balance in this reserve is expected to be £1.2m by the end of 2024/25. Therefore, any recurrence of recent years' overspends will deplete these funds, necessitating a draw on the General Reserve.

Road Safety Fund: This ring-fenced fund holds the balance of income from the National Driver Offender Retraining Scheme (NDORS) that exceeds the Camera Tickets and Collisions (CTC) unit's operational costs. £0.350m is earmarked for reinvestment in road safety activities in 2025/26. In recent years, CTC has been unable to transfer any additional income into this fund. Consequently, if the current usage rate persists, this fund will be entirely depleted by 2028/29.

Police Property Act Fund (PPAF): The PPAF is managed by the Chief Constable in accordance with the Police Property Act Regulations 1997. It is generated from the proceeds of the sale of goods recovered by the police that cannot be returned to their original owner. The PPAF is used for charitable purposes that support and complement local policing and crime reduction priorities.
Unconditional Funding Reserve: This reserve holds income, primarily from grants, which is due to timing delays in expenditure across financial years and is expected to be fully utilised in 2025/26.

Capital Reserves: The Commissioner currently holds no capital reserves from asset sales.

Benchmarking

To provide some comparison the table below shows that Hertfordshire police's reserves-to-revenue ratio (as at 31 March 2024) is considerably lower than both its peers and the broader local and national local authority sector.

Table 2.

Organisation(s)	**Total reserves to Net Revenue Expenditure**
Herts PCC	5.3%
England, Wales & Northern Ireland Police average[17]	14.1%
All English Local Authorities average[18]	29%
Herts Districts & County Council average	31%

17 CIPFA

18 Median average

CIPFA Financial Resilience Index

The CIPFA Financial Resilience Index is a diagnostic tool developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to help local authorities in England assess their financial sustainability and resilience. Its primary purpose is to provide a clear, evidence-based analysis of financial risk, enabling councils to benchmark their position against others and take proactive steps to address vulnerabilities.

Purpose

Risk Identification: It highlights key indicators that may signal financial stress, helping local authorities identify areas of concern.

Benchmarking: Authorities can compare their financial performance with peers, providing context for their financial decisions.

Transparency: The index fosters greater openness about financial risks, supporting better communication with stakeholders.

Early Intervention: By identifying potential issues early, it helps authorities take timely corrective actions to avoid financial instability.

Methodology

The index uses a range of financial indicators based on publicly available data, focusing on key aspects of financial resilience. These include:

1. Reserves Sustainability:

Examines the level of usable reserves and their trajectory, highlighting whether they are being depleted unsustainably.

2. Debt Levels:

Assesses the burden of borrowing relative to the council's financial position and its capacity to service debt.

3. Expenditure and Funding Balance:

Analyses the gap between service expenditure and available funding, measuring reliance on one-off measures or reserves to balance budgets.

4. Tax and Revenue Indicators:

Looks at reliance on council tax as revenue sources and the volatility or growth trends in these areas.

6. Income Generation:

Evaluates the authority's ability to generate additional income streams to support core services.

The tool generates a relative risk score for each indicator, ranking authorities from low to high risk. This allows councils to see where they stand in relation to others and prioritise actions to strengthen their financial resilience. The index is updated annually to reflect changes in financial conditions and incorporates the latest data to ensure relevance.

Hertfordshire's Financial Resilience Score

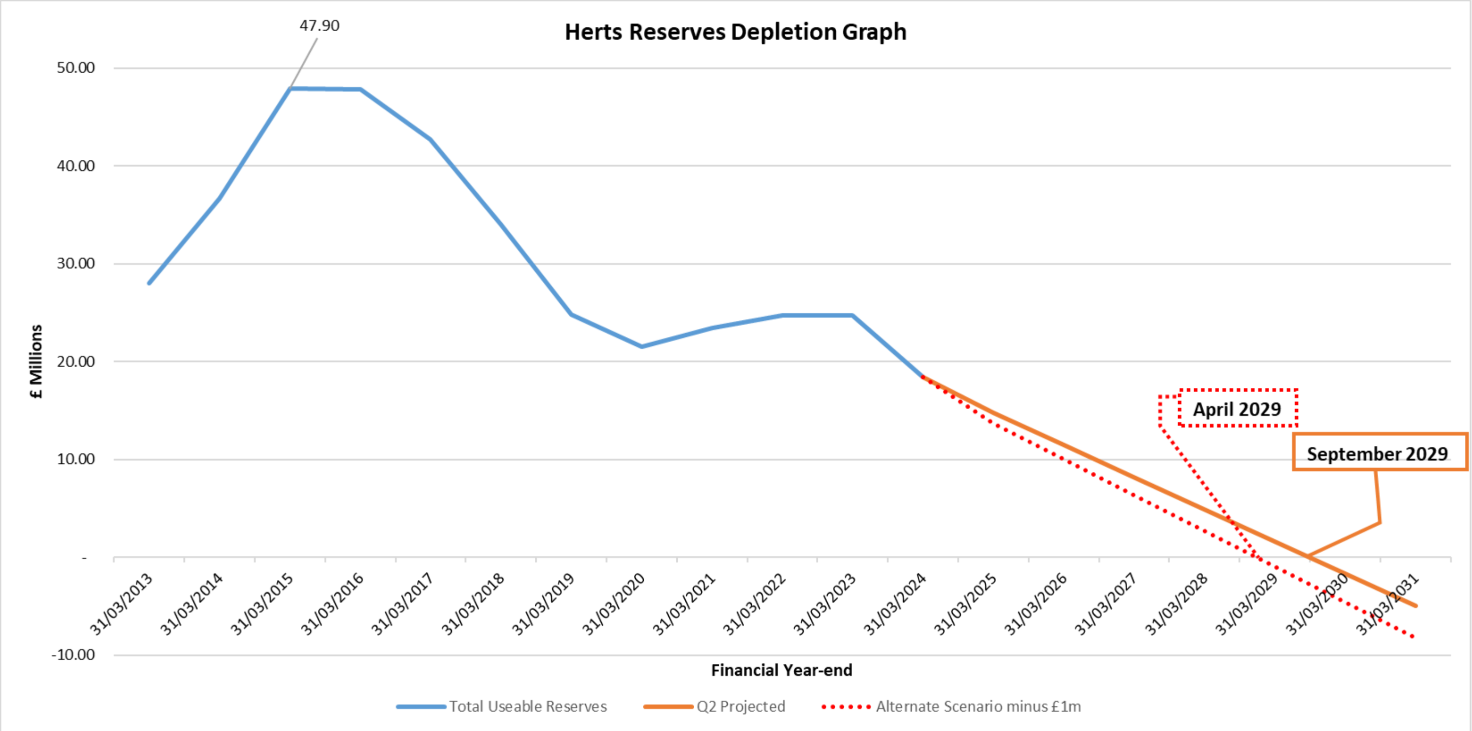
As detailed in Appendix A, Hertfordshire's financial resilience, as assessed by CIPFA at 31 March 2024, ranks 7th lowest among the 43 police forces in England, Wales, and Northern Ireland. Hertfordshire's score of -15.41 falls below the national average of +11.20[19]. Furthermore, Appendix B demonstrates that within Hertfordshire's Most Similar Group (MSG), the force ranks second lowest, while the group average stands at +12.76[20].

The graph below shows that, based on the current trajectory, the total reserves would be fully depleted by September 2029, and as illustrated a further £1m overspend would accelerate this date by 6 months to April 2029.

19 Ranges from +57.16 for North Wales to -36.46 for Nottinghamshire

20 Ranges from +42.36 for Thames Valley to -19.66 for Leicestershire

Graph 1



The Chief Finance Officer is increasingly concerned about the deteriorating reserves position, which has been exacerbated by ongoing budget pressures, inflationary cost increases, and the growing demand for essential services. Current projections indicate that the organisation's reserves are being depleted at an unsustainable rate, if left unchecked, this poses a significant risk to financial stability. In light of this, the situation is under close and continuous review to ensure the organisation’s ability to meet its statutory obligations. If the financial situation continues to deteriorate and remedial action prove insufficient, then Chief Finance Officer will not hesitate to take appropriate measures, including issuing a Section 114 notice[21], if necessary, to ensure compliance with statutory duties and to safeguard the organisation’s financial viability. While efforts are underway to address the financial challenges, it is vital to remain vigilant against overconfidence or complacency, as underestimating the gravity of the situation could lead to irreparable financial consequences for the organisation.

Implementation and Considerations

While acknowledging the current financial pressures facing police forces across the nation, Hertfordshire recognises the paramount importance of maintaining adequate

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[21] Section 114(3) of the Local Government Finance Act 1988

reserves. Responsible utilisation is equally vital, and the proposed strategy balances flexibility with fiscal prudence. By adopting a well-defined and adaptable reserves strategy Hertfordshire can achieve financial resilience, preparedness for unforeseen challenges.

The table below assesses Hertfordshire's current compliance with CIPFA's seven key principles for adequate reserves.

Table 3.

Budget assumptions	Current situation
1. The treatment of inflation and interest rates	Hertfordshire makes full and appropriate provision for pay and price rises, as appropriate. With affordability being a key consideration police officers pay inflation is determined by the government following recommendation from the Police Remuneration Review Body (PRRB) and police staff is via negotiation through the Police Staff Council. An informed assessment is made of interest rate movements using external sources such as Bank of England (BoE), Office of National Statistics (ONS), Office for Budget Responsibility (OBR) and external independent advisors. All individual income and expenditure lines within the revenue budget are prepared and published at estimated outturn prices.
2. Estimates of the level and timing of capital receipts	We make a judicious assumption of future capital receipts. Currently there are £25.7m of planned capital receipts over the medium to long-term.

3. The treatment of demand led pressures	The Constabulary has identified the need for £14.5m of cashable savings which will be removed from the budget over the next four years (2025/26 to 2028/29). Some government grants are announced annually in advance and are cash limited. Any new policing pressures arising during the year will have to be funded from the organisation's own resources. The Commissioner has created earmarked revenue reserves to help finance potential specific, ad-hoc expenditure, but these have been all but exhausted, with only an estimated circa. £1.2m remaining as at 31 March 2025. Ordinarily, where sufficient resources exist, appropriations are made to and from these reserves on an annual basis, as required. Finally, the general reserve is used as a last resort to manage extraordinary unforeseen spending requirements and not to shore up the day-to-day revenue expenditure.
4. The treatment of planned efficiency savings/productivity gains.	The medium-term plan anticipates a funding gap of circa. £14.5m from 2025/26 until the end of 2028/29 if there are modest council tax increases in each year. All savings are assessed in terms of deliverability.
	The financial consequences of working collaboratively, outsourcing arrangements and capital investment are incorporated as part of the medium-term planning process. Where relevant and quantifiable, any additional costs are incorporated in the

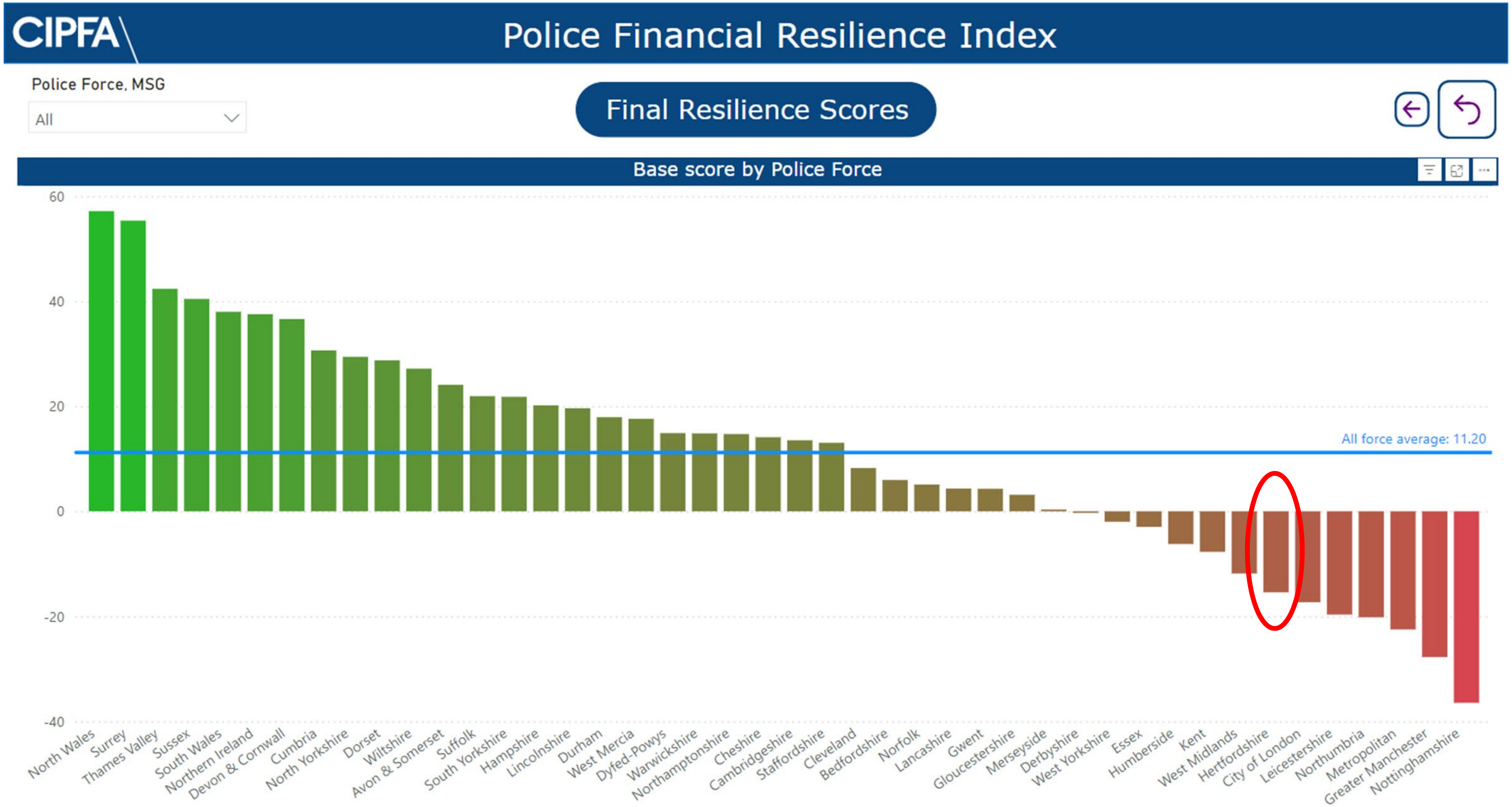
5. The financial risks inherent in any significant new funding partnerships, collaboration, major outsourcing arrangements, or major capital developments	annual revenue budget and/or capital programme. However, there is a clear risk of losing funding from local authority partners. They may withdraw their support for initiatives such as match funded PCSOs or joint estates, because of changing priorities or budget constraints. In that case, we would try to offset the loss by reducing any grants payable to them. Moreover, the financial viability of private sector service providers may face increased risks from inflationary and supply-chain pressures. The total capital program, including the £70m HQ project, is expected to reach £116m over the next decade, mostly financed by debt. Servicing this debt (interest payments and principal repayments or minimum revenue provisions) will come from revenue resources. Fixed-rate loans mitigate interest rate risks, but any significant pre-borrowing uptick in rates could still impact revenue. Following the recent budget PWLB borrowing rates have increased significantly and so the timing of any loan debt is crucial in interest rates

6. The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions	As set out above the availability of reserves is expected to reduce to £15m by the end of 2024/25. The access criteria for Home Office special grants state that PCCs may be required to fund up to 1% of their net budget requirement themselves before Government considers grant aid. This applies on an annual basis and equates to approximately £2.8m. The external auditors, BDO & KPMG, are required to conduct a VFM assessment, to assess the organisations’ ability to continue as a going concern.
7. The general financial climate to which the authority is subject.	The UK economy continues to navigate a complex landscape, impacting the financial planning of police forces. While inflation has moderated, persistent economic headwinds remain. The UK economy is projected to experience modest growth in 2025 of between 1.2% and 1.6%. * Economic Growth: Internationally, geopolitical tensions, including trade policies from major economies like the United States, could influence the UK's economic stability. The IMF has cautioned that certain economic policies may pose risks to global economic growth, which could indirectly affect the UK's financial environment. The UK economy is experiencing subdued growth, influenced by factors such as lingering global economic uncertainty, continuing Brexit-related trade frictions, and the ongoing impact of the war in Ukraine.

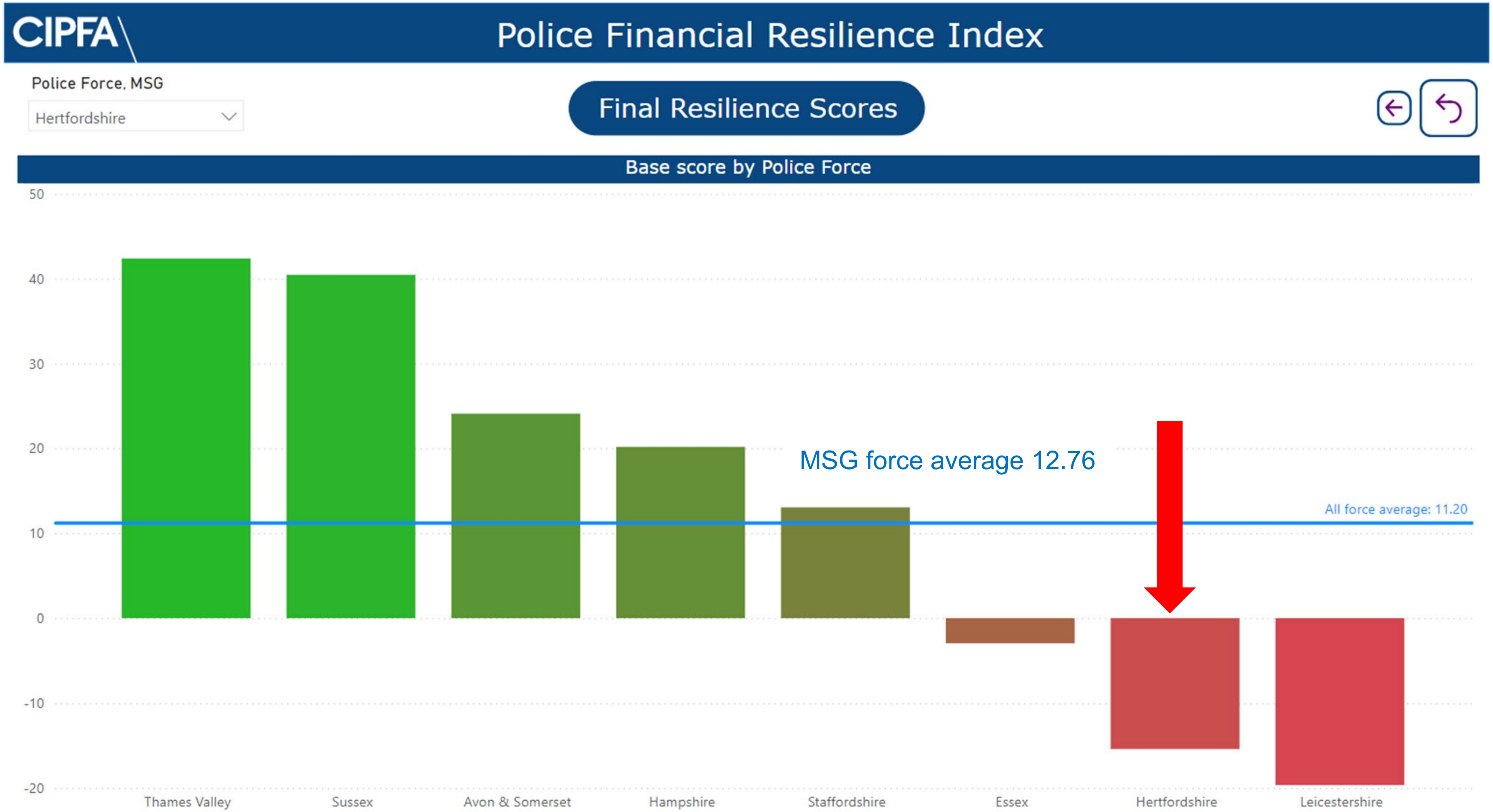
	* Inflation: Although inflation has eased from its peak, it remains above the Bank of England's target. This persistent inflationary pressure contributes to increased operational costs for police forces. * Inflation and Monetary Policy: Inflation is expected to stabilise around the Bank of England's target of 2% by the end of 2025. The Bank of England has been implementing gradual interest rate cuts to support economic growth, with projections suggesting the bank rate could decrease to approximately 3.75% by the end of the year. Some policymakers have indicated that more accelerated rate reductions may be necessary if economic conditions weaken further. However, higher interest rates increase the cost of borrowing for the public sector, impacting the affordability of capital projects and potentially increasing debt servicing costs. * Government Finances: The government faces ongoing pressures on public finances, with the need to balance economic growth with fiscal sustainability. This environment may constrain public spending, potentially impacting the level of government funding available to police forces. * Labour Market: The labour market is exhibiting signs of softening. The unemployment rate is anticipated to rise slightly, reflecting a deceleration in job creation. Employers have expressed concerns about increased National Insurance Contributions and higher minimum wage levels potentially

	impacting employment growth. This may impact recruitment and retention within police forces. * Police Funding: The outcome of the Home Office review of the Police Funding Formula Review (PFFR) remains uncertain, creating uncertainty around future funding allocations for Hertfordshire Constabulary. Key Considerations for Hertfordshire Constabulary: * Financial Planning: The evolving economic landscape necessitates robust financial planning and budgeting processes. * Cost Control: Implementing effective cost-control measures is crucial to mitigate the impact of inflation and other cost pressures. * Resource Allocation: Prioritising essential services and optimising resource allocation will be vital in a constrained fiscal environment. * Collaboration: Collaboration with other forces and stakeholders is essential to address shared challenges and maximise resource utilisation. * Contingency Planning: Developing robust contingency plans to address potential funding shortfalls or unforeseen economic shocks is crucial.

Appendix A - England, Wales & Northern Ireland Comparison



Appendix B - Most Similar Group (MSG) Comparison



DRAFT TREASURY MANAGEMENT STRATEGY 2025/26

POLICE AND CRIME COMMISSIONER FOR HERTFORDSHIRE

Treasury Management Strategy and Investment Strategy 2025/26 to 2027/28

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

1. Purpose

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

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

2. Recommendation

2.1. That the Treasury Management Strategy for 2025/26 and the remainder of 2024/25 is approved; and

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

3. Introduction

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

3.2. Treasury risk management at the PCC is conducted within the framework of the CIPFA Code which requires the PCC to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year. This report fulfils the PCC's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

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

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

4. External Context

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

Economic background

4.2. The impact on the UK from the Government's Autumn Budget, slower interest rate cuts, modestly weaker economic growth over the medium term, together with the impact from President-elect Trump's second term in office and uncertainties around US domestic and foreign policy, will be major influences on the Police and Crime Commissioner's treasury management strategy for 2025/26.

4.3. The Bank of England's (BoE) Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November 2024 and following a previous 0.25% cut from the 5.25% peak at the August 2024 MPC meeting.

Credit outlook

4.4. Credit default swap (CDS) prices are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. CDS prices have typically followed a general trend downwards during 2024, reflecting a relatively more stable financial period compared to the previous year. Improved credit conditions in 2024 have also led to greater convergence in CDS prices between ringfenced (retail) and non-ringfenced (investment) banking entities again.

4.5. Higher interest rates can lead to a deterioration in banks' asset quality through increased loan defaults and volatility in the value of capital investments. Fortunately, the rapid interest rate hikes during this monetary tightening cycle, while putting some strain on households and corporate borrowers, has not caused a rise in defaults, and banks have fared better than expected to date, buoyed by strong capital positions. Low unemployment and robust wage growth have also limited the number of problem loans, all of which are positive in terms of creditworthiness.

4.6. Overall, the institutions on the counterparty list provided by the PCC's treasury management adviser, Arlingclose, remain well-capitalised. Arlingclose's counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (December 2024)

4.7. Arlingclose forecasts that the Bank of England's MPC will continue reducing rates through 2025, taking the Bank Rate to around 3.75% by the end of the 2025/26 financial year. The effect from the Autumn Budget on economic growth and inflation has reduced previous expectations in terms of the pace of rate cuts as well as increasing the forecast terminal rate at the end of the cycle.

4.8. Arlingclose expects long-term gilt yields to remain broadly at current levels on average (amid continued volatility), but to end the forecast period modestly lower compared to now. Yields will continue remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will be short-term volatility due to economic and (geo)political uncertainty and events.

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

5. Balance Sheet Summary and Forecast

5.1. On 31 December 2024, the PCC held £93.7m of borrowing and £30.2m of investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1.

Table 1: Balance sheet summary and forecast

	31/03/24 Actual £m	**31/03/25 Estimate £m**	**31/03/26 Forecast £m**	**31/03/27 Forecast £m**	**31/03/28 Forecast £m**
Capital Financing Requirement	70.1	98.0	127.5	133.4	129.8
Less: other debt liabilities – Leases*	-5.6	-4.7	-3.9	-3.1	-2.6
Loans CFR	**64.6**	**93.3**	**123.6**	**130.3**	**127.2**
Less: External borrowing**					
- Public Works Loan Board	-38.7	-41.7	-87.7	-109.7	-112.7
- Other Loans (incl. LOBOs)	-10	-10	-10	-10	-10
- Short term borrowing	-16	-42	-	-	-
Total borrowing	**-64.7**	**-93.7**	**-97.7**	**-119.7**	**-122.7**
Internal borrowing	**-0.1**	**-0.4**	**25.9**	**10.6**	**4.5**
Less: Balance sheet resources	-6.7	-3.3	-2.9	-2.6	-2.2
New borrowing or (Treasury investments)	**-6.8**	**-3.7**	**23.0**	**8.0**	**2.3**

* Leases that form part of the PCC’s debt. IFRS 16 requires the PCC to change how it recognises its leases from 1 April 2024.

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

5.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The PCC’s current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

5.3. The PCC has an increasing CFR due to increased spending on the capital programme but expects to be unable to fund this fully from its investment balances and therefore will be required to externally borrow over the forecast period. The total CFR also includes the impact of the introduction of the new accounting standard for leases (IFRS 16), which changes the way the PCC accounts for leases but does not affect the overall revenue budget. The overall Capital Programme is detailed in the Medium-Term Financial Strategy report that was agreed in March 2024 and shows that capital expenditure is expected to be funded through borrowing and capital receipts.

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

5.5. The PCC currently holds £42m of temporary borrowing which will require refinancing during 2025/26. The Chief Finance Officer is cognisant of the refinancing risk associated with this and will work with Arlingclose to mitigate the risk, through planning ahead, monitoring market conditions, investigating all funding sources allowed by this strategy, and making long-term borrowing decisions where these represent best value.

Liability benchmark

5.6. To compare the PCC’s actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1, but that cash and investment balances are kept to a minimum level at each year-end to maintain sufficient liquidity but minimise credit risk.

5.7. The liability benchmark is an important tool to help establish whether the PCC is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the PCC must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

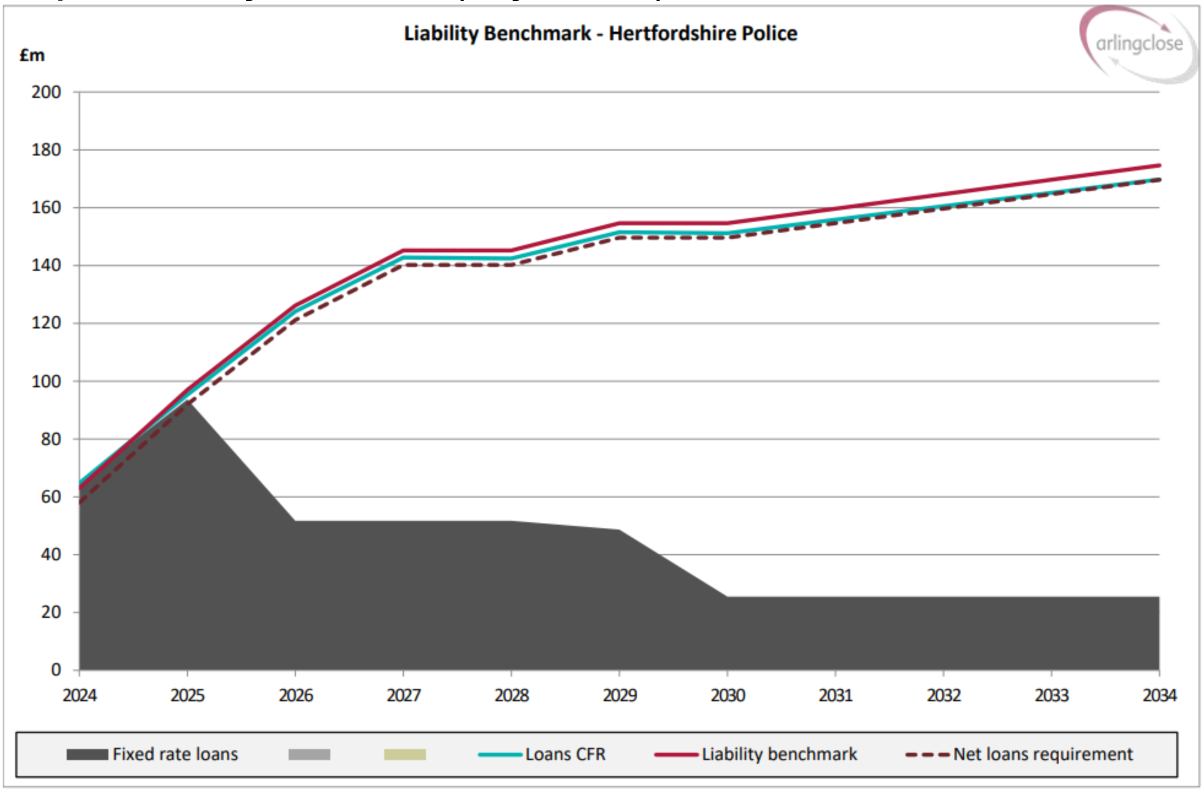
Table 2: Prudential Indicator: Liability benchmark

	31/03/24 Actual £m	**31/03/25 Estimate £m**	**31/03/26 Forecast £m**	**31/03/27 Forecast £m**	**31/03/28 Forecast £m**
Loans CFR	64.6	93.3	123.6	130.3	127.2
Less: Balance sheet resources	-6.7	-3.3	-2.9	-2.6	-2.2
Net loans requirement	**57.9**	**90.0**	**120.7**	**127.7**	**125.0**
Plus: Liquidity allowance	5.0	5.0	5.0	5.0	5.0
Liability benchmark	**62.9**	**95.0**	**125.7**	**132.7**	**130.0**

5.8. At the start of the period, 31 March 2024, the PCC had a Loans CFR of £64.6m, external borrowing of £64.7m, balance sheet resources of £6.7m[22] and a liability benchmark of £62.9m. Although the total external borrowing was above the CFR, £16m of this was temporary borrowing for cashflow purposes, and therefore the £48.7m of long-term borrowing was within the limit of the CFR as defined by the Prudential Code. There was no internal borrowing in place, which is where the PCC has used its own resources to fund its borrowing requirement, and all borrowing was external in nature.

[22] Working Capital from Balance Sheet

Graph 1: Liability Benchmark (10-year view)



The full liability benchmark spanning 50 years is available at Appendix D to this report.

5.9. The liability benchmark is the lowest level of debt the PCC could hold if it used all of its balances, reserves, and cash flow surpluses to fund its CFR. The liability benchmark graph is created based on ten years of data, which explains why the Loans CFR line reduces past the initial ten-year period – the diagram assumes that no new capital projects will begin after 2034/35, which is a very unlikely scenario but a reflection of the current horizon for capital expenditure forecasts.

5.10. The PCC expects a positive liability benchmark across the forecast period, due to a rising CFR in combination with an expectation that balance sheet resources will drop, which means an authority is required to take external borrowing to fund the gap between its resources and the CFR.

5.11. The chart shows that it is expected that the external long-term borrowing the PCC has already arranged will not be sufficient, with it being below the liability benchmark, and so indicates that additional borrowing will be required to rectify this.

5.12. The chart also shows that the liability benchmark is marginally above the Loans CFR. This is highlighting that the PCC requires liquidity generally around each year end as a result of the timing of receipt of grant, as well as short-term debtors and creditors. This will be managed with short-term borrowing as was the case at 31 March 2024. The PCC is acting within the Prudential Code as the long-term external borrowing is within the CFR, and the short-term borrowing is secured for liquidity management purposes.

5.13. Unfortunately, a limitation of liability benchmarking is that the further out the forecast, the less it can be relied upon (particularly after 2028/29 after the end of the current capital expenditure forecast period) and so as time passes, the requirement to borrow may change and either may not be there for the whole period, or alternatively cash flow requirements that are not known about today may become present later which may require the PCC to take additional external borrowing in the future. The PCC will keep the position under review and continue to take advice from Arlingclose on the most appropriate time to borrow when it is required.

6. Borrowing Strategy

6.1. The PCC currently holds £93.7m of loans. The balance sheet forecast in Table 1 shows that the PCC is forecast to maintain a net borrowing position, and so may need to borrow to fund capital expenditure to maintain its long-term and minimum level of investments. The PCC may also borrow additional sums to pre-fund future years' requirements, providing total borrowing does not exceed the authorised limit for borrowing of £145m.

Objectives

6.2. The PCC's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans, should the PCC's long-term plans change, is a secondary objective.

Strategy

6.3. The PCC's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently higher than in the recent past but are expected to fall in the coming year, and it is therefore likely to be more cost effective over the medium term to either use internal resources or to borrow short-term loans instead.

6.4. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the PCC with this 'cost of carry' and breakeven analysis, and this will used to help determine whether the PCC borrows additional sums at long-term fixed rates in 2025/26 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

6.5. The PCC has previously raised long-term borrowing from the PWLB and will also consider long-term loans from other sources including banks, pension funds and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities (including police and crime commissioners) planning to buy investment assets primarily for yield; the PCC's investment strategy does not support this activity and so will retain its access to PWLB loans.

6.6. The PCC may also arrange forward starting loans during 2025/26, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. The PCC may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money.

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

Sources of borrowing

6.8. The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Hampshire Pension Fund)
- capital market bond investors
- retail investors via a regulated peer-to-peer platform
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance

6.9. In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback
- similar asset-backed finance

LOBOs

6.10. A LOBO loan is where the lender has the option to propose an increase in the interest rate at set dates, following which the borrower has the option to either accept the new rate or to repay the loan at no additional cost. The PCC held £10m of LOBO (Lender's Option Borrower's Option) loans, however Barclays removed the option on both sides therefore these loans are now considered to be fixed market loans. Total borrowing via LOBO loans is limited to the current level of £10m.

Short-term and variable rate loans

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

Debt rescheduling

6.12. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The PCC may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means more favourable debt rescheduling opportunities could arise and the opportunity to reschedule is kept under review.

7. Treasury Investment Strategy

7.1. The PCC holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the PCC’s treasury investment balance has ranged between £2.9m and £57.3m.

Objectives

7.2. The CIPFA Code requires the PCC to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The PCC’s objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Strategy

7.3. As demonstrated by the liability benchmark above, the PCC expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments.

7.4. At 31 December 2024 approximately 76% of the PCC's investment balances were invested so that they were not subject to bail-in risk, as they were invested in Government investments and the strategic pooled property fund.

7.5. Of the 24% of investment balances that were subject to bail-in risk, 64% was held in overnight money market funds which are subject to a reduced risk of bail-in due to the high level of diversification within it, and 36% was held in overnight bank call accounts for liquidity purposes.

7.6. Further detail is provided at Appendix B.

Environmental, social and governance factors

7.7. Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the PCC does not currently include ESG scoring or other real-time ESG criteria at an individual investment level.

Business models

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

Investments in pooled funds

7.9. The PCC continues to invest in a pooled property fund which enables it to achieve a greater degree of diversification than could effectively be achieved by directly owning individual assets. Pooled funds are managed by specialist external fund managers who are best placed to select and manage investments, for example with property investments in selecting appropriate buildings and then managing the relationship with tenants and the maintenance of those buildings.

7.10. Diversification in itself does not guarantee positive outcomes. The selection of a pooled fund is carefully managed to target funds with a strong performance track record and objectives that are well aligned to the PCC's income returns aims without putting its initial investment at undue risk over the longer term. The PCC is therefore currently invested in a pooled fund that specialises in providing income returns to support the revenue budget. As a result of their income focus this fund may not achieve the same capital growth and therefore total return, as other more general investment funds, however it is likely to deliver good income returns for the longer term.

7.11. The investible universe for pooled funds is vast and part of the service provided by Arlingclose as treasury advisers is to conduct research and suitable due diligence on pooled funds prior to making recommendations to their clients.

7.12. Past performance does not guarantee that funds can replicate successful outcomes in future and knowing which funds will perform well is not an exact science. The PCC will therefore continue to conduct its own ongoing review and scrutiny of the performance of its pooled fund investments. The PCC will also discuss these investments regularly with Arlingclose, who provide advice based on regular meetings with representatives from the pooled funds and their own ongoing due diligence on areas such as performance and investment style, strategy, and process.

7.13. At the current time, the PCC's pooled fund investment is valued with an unrealised capital loss of £0.3m. To date, the statutory override in place of IFRS 9 for local authorities exempts the PCC from taking this unrealised loss to the Comprehensive Income and Expenditure Statement. This override is due to end on 31 March 2025, following which the PCC will be required to reflect any unrealised capital gains or losses on investments in the revenue account on an annual basis. MHCLG has recently issued a consultation on this issue and the PCC has responded urging the Government to retain the IFRS 9 statutory override on pooled funds.

Investment limits

7.14. The maximum that will be lent to any one organisation (other than the UK Government) will be £9m. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers as shown in Table 3.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£9m each
UK Central Government	unlimited
Any group of pooled funds under the same management	£22.5m per manager

Approved Counterparties

7.15. The PCC may invest its surplus funds with any of the counterparty types in Table 4, subject to the limits shown.

Table 5: Sector and counterparty limits

Sector	**Time limit**	**Counterparty limit**	**Sector limit**
The UK Government	3 years	Unlimited	n/a
Local authorities & other government entities	3 years	£9m	Unlimited
Secured investments *	3 years	£9m	Unlimited
Banks (unsecured) *	13 months	£4.5m	Unlimited
Building societies (unsecured) *	13 months	£4.5m	£9m
Registered providers (unsecured) *	3 years	£4.5m	£22.5m
Money market funds *	n/a	£9m	Unlimited
Strategic pooled funds	n/a	£9m	£45m
Real estate investment trusts	n/a	£9m	£22.5m
Other investments *	3 years	£4.5m	£9m

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

Time limit

7.16. Borrowing to invest primarily for financial return is in contravention of the CIPFA Treasury Management Code. To reflect the expectation that long-term borrowing will be a requirement for the PCC, time limits for investment have therefore been shortened to a maximum of 3 years.

* Minimum credit rating

7.17. Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-/A3. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant known factors including external advice will be taken into account.

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

UK Government

7.19. Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 3 years.

Local authorities and other government entities

7.20. Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities, and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.

Secured investments

7.21. Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured)

7.22. Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured)

7.23. Loans and bonds issued by, guaranteed by, or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government, and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds

7.24. Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the PCC will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds

7.25. Bond, equity, and property funds, including exchange traded funds, which offer enhanced returns over the longer term but are more volatile in the short term. These allow the PCC to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date but can be either withdrawn after a notice period or sold on an exchange, their performance and continued suitability in meeting the PCC's investment objectives will be monitored regularly.

Other investments

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

Operational bank accounts

7.27. The PCC may incur operational exposures, for example though current accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept low. The PCC's operational bank account is with National Westminster and aims to keep the overnight balances held in current accounts positive, and as close to £50,000 as possible. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion (such as NatWest) are more likely to be bailed-in than made insolvent, increasing the chance of the PCC maintaining operational continuity.

Markets in Financial Instruments Directive

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

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

Risk assessment and credit ratings

7.30. Credit ratings are obtained and monitored by the PCC's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

7.31. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the security of investments

7.32. The PCC understands that credit ratings are good, but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the PCC's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

7.33. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings but can be seen in other market measures. In these circumstances, the PCC will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the PCC's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office, or invested in government treasury bills for example, or with other local authorities. This will likely lead to investment returns falling but will protect the principal sum invested.

Liquidity management

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

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

8. Treasury Management Prudential Indicators

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

Interest rate exposures

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

Table 6: Interest rate risk indicator

	31 December 2024 £m	Impact of +/-1% interest rate change £m
Sums subject to variable interest rates		
Investment	30.2	+/- 0.3
Borrowing	(30.0)	+/- 0.3

Maturity structure of borrowing

8.3. This indicator is set to control the PCC's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 7: Refinancing rate risk indicator

	Upper	Lower
Under 12 months	65%	0%
12 months and within 24 months	60%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	60%	0%
10 years and within 20 years	65%	0%
20 years and within 30 years	65%	0%
30 years and above	100%	0%

8.4. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Long-term treasury management investments

8.5. The purpose of this indicator is to control the PCC's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 8: Price risk indicator

	2025/26	**2026/27**	**2027/28**	**No fixed date**
Limit on principal invested beyond a year	£10m	£10m	£10m	£2.5m

8.6. Long-term investments with no fixed maturity date include strategic pooled funds but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

8.7. In effect, the annual limit and the no fixed date limit would be added together to reach the total limit on principal invested beyond year end, meaning that during 2025/26, for example, the PCC could invest up to £12.5m for the long-term, subject to investment balances and cash flow requirements.

9. Prudential Indicators - Borrowing

Gross Debt and the Capital Financing Requirement

9.1. In order to ensure that over the medium-term debt will only be for a capital purpose, the PCC should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence and is shown in Table 9.

Table 9: Gross Debt and the Capital Financing Requirement

	31/03/25 Revised £m	31/03/26 Estimate £m	31/03/27 Estimate £m	31/03/28 Estimate £m
CFR	**93.3**	**123.6**	**130.3**	**127.2**
Debt				
Existing borrowing	(93.7)	(51.7)	(51.7)	(51.7)
New borrowing	0.0	(46.0)	(68.0)	(71.0)
Leases	(4.7)	(3.9)	(3.1)	(2.6)
Total Debt	**(98.4)**	**(101.6)**	**(122.8)**	**(125.3)**

9.2. Total debt is expected to remain below the CFR during the forecast period.

Affordable Borrowing Limit

9.3. The PCC is legally obliged to set an Authorised Limit for the maximum affordable amount of external debt. In line with statutory guidance, a lower 'Operational Boundary' is also set as a warning level should debt approach the limit. The Operational Boundary is based on the PCC's estimate of the most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the PCC's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.

Table 10: Affordable Borrowing Limits

	2024/25 Revised £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Authorised Limit:				
Borrowing	(155.0)	(145.0)	(155.0)	(165.0)
Leases and other long-term liabilities	(10.0)	(10.0)	(10.0)	(10.0)
Authorised Limit	**(165.0)**	**(155.0)**	**(165.0)**	**(175.0)**
Operational boundary:				
Borrowing	(145.0)	(130.0)	(140.0)	(195.0)
Leases and other long-term liabilities	(6.0)	(5.0)	(5.0)	(5.0)
Operational Boundary	**(151.0)**	**(135.0)**	**(145.0)**	**(200.0)**

10. Related Matters

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

Policy on Use of Financial Derivatives

10.2. In the absence of any explicit legal power to do so, the PCC will not use standalone financial derivatives (such as swaps, forwards, futures, and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

Investment of money borrowed in advance of need

10.3. The PCC may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the PCC is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the PCC's overall management of its treasury risks.

11. Financial implications

11.1. The budget for investment income in 2025/26 is £0.3m, whilst the budget for debt interest paid in 2025/26 is £5.4m, which is based on the expected fixed interest costs of the current debt portfolio. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different. Interest paid on any new borrowing will depend on the actual level of borrowing necessary and the interest rates obtained on that borrowing.

12. Other Options Considered

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

12.2. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in Table 11.

Table 11: Alternative strategies and their implications

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of /borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A - Arlingclose Economic and Interest Rate Forecast December 2024

Underlying assumptions:

- As expected, the Monetary Policy Committee (MPC) held Bank Rate at 4.75% in December, although, with a 6-3 voting split and obvious concerns about economic growth, presented a much more dovish stance than had been expected given recent inflationary data.

- The Budget measures remain a concern for policymakers, for both growth and inflation. Additional government spending will boost demand in a constrained supply environment, while pushing up direct costs for employers. The short to medium-term inflationary effects will promote caution amongst policymakers.

- UK GDP recovered well in H1 2024 from technical recession, but underlying growth has petered out as the year has progressed. While government spending should boost GDP growth in 2025, private sector activity appears to be waning, partly due to Budget measures.

- Private sector wage growth and services inflation remain elevated; wage growth picked up sharply in October. The increase in employers' NICs, minimum and public sector wage levels could have wide ranging impacts on private sector employment demand and costs, but the near-term impact will likely be inflationary as these additional costs get passed on to consumers.

- CPI inflation rates have risen due to higher energy prices and less favourable base effects. The current CPI rate of 2.6% could rise further in Q1 2025. The Bank of England (BoE) estimates the CPI rate at 2.7% by year end 2025 and to remain over target in 2026.

- The MPC re-emphasised that monetary policy will be eased gradually. Despite recent inflation-related data moving upwards or surprising to the upside, the minutes suggested a significant minority of policymakers are at least as worried about the flatlining UK economy.

- US government bond yields have risen following strong US data and uncertainty about the effects of Donald Trump's policies on the US economy, particularly in terms of inflation and monetary policy. The Federal Reserve pared back its expectations for rate cuts in light of these issues. Higher US yields are also pushing up UK gilt yields, a relationship that will be maintained unless monetary policy in the UK and US diverges

Forecast:

- In line with our forecast, Bank Rate was held at 4.75% in December.

- The MPC will reduce Bank Rate in a gradual manner. We see a rate cut in February 2025, followed by a cut alongside every Monetary Policy Report publication, to a low of 3.75%.

- Long-term gilt yields have risen to reflect both UK and US economic, monetary, and fiscal policy expectations, and increases in bond supply. Volatility will remain elevated as the market digests incoming data for clues around the impact of policy changes.

- This uncertainty may also necessitate more frequent changes to our forecast than has been the case recently.

- The risks around the forecasts lie to the upside over the next 12 months but are broadly balanced in the medium term.

	Current	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.90	4.60	4.35	4.10	3.90	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.34	4.30	4.20	4.10	4.00	3.90	3.90	3.95	4.00	4.05	4.05	4.05	4.05
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.56	4.55	4.45	4.30	4.20	4.20	4.20	4.20	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	5.05	5.00	4.90	4.80	4.70	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.52	4.70	4.60	4.50	4.40	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80

- PWLB Standard Rate = Gilt yield + 1.00%
- PWLB Certainty Rate = Gilt yield + 0.80%
- PWLB HRA Rate = Gilt yield + 0.40%
- National Wealth Fund (NWF) Rate = Gilt yield + 0.40%

Appendix B - Existing Investment & Debt Portfolio Position at 31 December 2024

Treasury investment position

Investments	30/09/2024 Balance £m	Net movement £m	31/12/2024 Balance £m	31/12/2024 Income return %	31/12/2024 Weighted average maturity years
Short term investments					
Banks and building societies:					
- Unsecured	1.2	1.4	2.6	4.49	0.00
Money Market Funds	1.9	2.7	4.6	4.71	0.00
UK Government					
- Debt Management Office	0.0	13.0	13.0	4.65	0.21
- Treasury Bills	0.0	7.5	7.5	4.69	0.12
	3.1	**24.6**	**27.7**	**4.27**	**0.12**
Long term investments					
Pooled funds:					
- Pooled property*	2.5	0.0	2.5	5.22	N/A
	2.5	**0.0**	**2.5**	**5.22**	**N/A**
TOTAL INVESTMENTS	**5.6**	**24.6**	**30.2**	**4.70**	**0.12**

*The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 December 2024 based on the market value of investments 12 months earlier.

Treasury management position	**31/12/2024 Balance £m**	**31/12/2024 Rate %**
External Borrowing		
- PWLB	(41.7)	3.78
- Fixed term loans	(10.0)	4.15
- Other Local Authorities	(42.0)	5.26
Other long-term liabilities		
- Leases	(5.6)	
Investments		
- Investments	30.2	4.70
Net Debt	**(69.1)**	

Appendix C - Q3 2024/25 Treasury Management Indicators at 31 December 2024

Debt Limits

Provided that the total authorised limit and the total operational boundary for external debt for a year are unchanged, movement may be made between the separately identified figures within these prudential indicators for borrowing and other long-term liabilities by the Chief Finance Officer.

As a result, a virement of £1m has been made to the 2024/25 Operational Boundary, between borrowing and leases, with no change to the total debt limit. This change has been made to ensure that the proper valuation of principal for the leases can fall within the individual leases element of the Operational Boundary.

For clarity, there has been no additional liabilities taken on by the PCC regarding the leases, and this change has been made to ensure proper reflection of accounting practices.

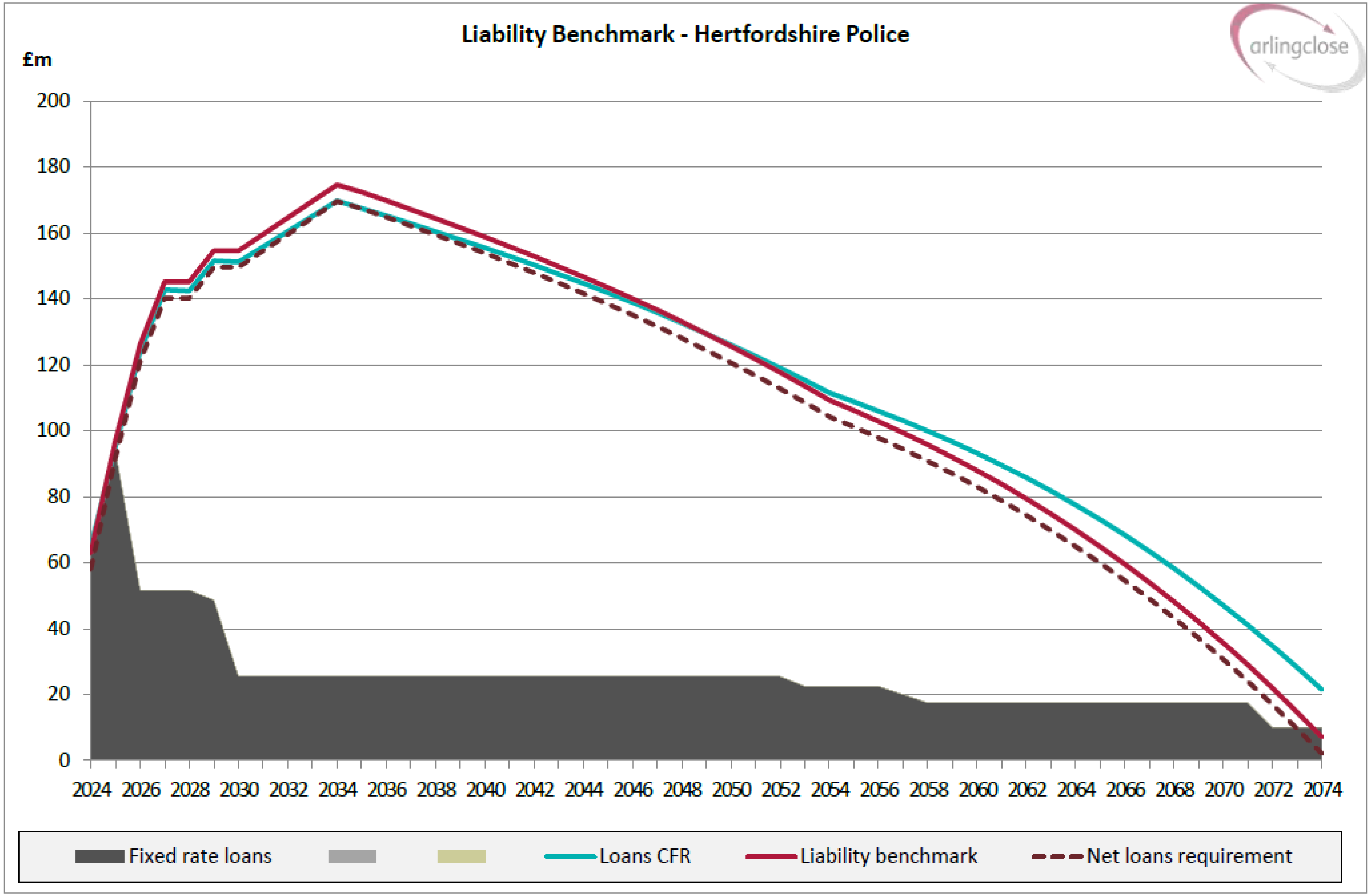
Debt limits	Current 2024/25 Operational Boundary £m	Updated 2024/25 Operational Boundary £m
Borrowing	(95.0)	(94.0)
Leases	(5.0)	(6.0)
Total debt	**(100.0)**	**(100.0)**

Debt limits	2024/25 Maximum £m	31/12/24 Actual £m	2024/25 Operational Boundary £m	2024/25 Authorised Limit £m	Complied
Borrowing	(93.7)	(93.7)	(94.0)	(110.0)	✓
Leases	(5.6)	(5.6)	(6.0)	(10.0)	✓
Total debt	**(99.3)**	**(99.3)**	**(100.0)**	**(120.0)**	✓

Maturity Structure of Borrowing	**31/12/24 Actual**	**Upper Limit**	**Lower Limit**	**Complied**
Under 12 months	45%	65%	0%	✓
12 months and within 24 months	0%	60%	0%	✓
24 months and within 5 years	3%	60%	0%	✓
5 years and within 10 years	25%	60%	0%	✓
10 years and within 20 years	0%	65%	0%	✓
20 years and within 30 years	3%	65%	0%	✓
30 years and above	24%	100%	0%	✓

Long term investments	**2024/25**	**2025/26**	**2026/27**	**No fixed date**
Actual principal invested beyond year end	-	-	-	£2.5m
Limit on principal invested beyond year end	£10m	£10m	£10m	£2.5m
Complied	✓	✓	✓	✓

Appendix D – 50-year Liability Benchmark graph



MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

Background

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

The Local Government Act 2003[23] requires the organisation to have regard to the Ministry of Housing, Communities and Local Government's Guidance (MHCLG)[24] statutory guidance '*Capital finance: guidance on minimum revenue provision (5th edition*)' on Minimum Revenue Provision ("the Guidance"); most recently issued in April 2024. The broad aim of the guidance is to ensure that capital expenditure financing is commensurate with the period over which the capital expenditure provides benefits.

The guidance require that the Commissioner approve an MRP statement each year. A variety of options are provided to authorities, so long as there is a prudent provision.

What is a Minimum Revenue Provision (MRP)?

The England, Northern Ireland and Wales capital finance regulations and associated statutory guidance[25] place a duty on local authorities to charge to the revenue account a minimum revenue provision (MRP) that is deemed to be prudent. The Minimum Revenue Provision is a charge that local authorities, which are not debt free, are required to make in their accounts for the repayment of debt (as measured by the underlying need to borrow, rather than actual debt). The underlying debt is needed to finance the capital programme. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g., buildings, vehicles, machinery etc. It is therefore prudent to charge an amount for the repayment of debt over the life of the asset or some similar proxy figure, allowing borrowing to be matched to asset life. Setting aside an amount for the repayment of debt in this manner would then allow for future borrowing to be taken out to finance the asset when it needs replacing at no incremental cost. The

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[23] Section 21(1A) of the Local Government Act 2003

[24] Formerly the Department for Levelling Up, Housing & Communities (DLUHC)

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

manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and is now determined by Guidance.

MHCLG Options

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

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

The transition from the 4th to the 5th edition of the Capital Finance: Guidance on Minimum Revenue Provision (MRP) introduces several key changes aimed at reinforcing prudent financial practices among local authorities:

1. Comprehensive Inclusion of Capital Financing Requirement (CFR): The updated guidance mandates that local authorities must include their entire CFR when calculating MRP, prohibiting the exclusion of any portion unless explicitly allowed by statute. This ensures a holistic approach to debt repayment obligations.

2. Restriction on Substituting MRP with Capital Receipts: The 5th edition explicitly forbids the practice of using capital receipts to offset or replace the MRP charge to revenue, except in specific cases such as certain capital loans and leased assets. This change aims to prevent the circumvention of revenue charges through asset sales.

3. Enhanced MRP Policy Statement Requirements: Local authorities are now required to provide a more detailed MRP Statement. This statement must outline the methodologies employed, any deviations from prior policies, and justifications for such changes, thereby promoting greater transparency and accountability in financial reporting.

4. Specific Provisions for Capital Loans: For capital loans issued on or after May 7, 2024, the guidance requires authorities to charge MRP such that the outstanding CFR related to the loan does not exceed the principal amount outstanding, adjusted for any expected

credit losses. This provision addresses the risks associated with lending and ensures that potential losses are accounted for prudently.

These revisions, effective from 1 April 2025, with certain provisions applicable from 7 May 2024, are designed to strengthen the prudential framework, ensuring that local authorities maintain sustainable debt levels and uphold fiscal responsibility.

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

Options 1 & 2 both apply a rate of 4% to the adjusted CFR, but **Options 1** The Regulatory Method relies on a prescribed formula based on historic debt liabilities and corresponding regulatory guidance. It is generally applicable to debt incurred prior to 1 April 2008, as it aligns with the provisions of previous regulations.

In contrast, **Option 2** the CFR Method is a more flexible, forward-looking approach that uses the Capital Financing Requirement—a measure of an authority's underlying need to borrow—to calculate MRP. This method ensured that repayment schedules are linked to the lifecycle of assets financed through borrowing. However, once again it may only be used in relation to capital expenditure incurred before 1 April 2008.

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

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

Methodology adopted

Although the equal instalments methodology provides certainty and uniformity in the level of charges to the revenue account, it does not however recognise the time value of money i.e., the effect of inflation. For example, an MRP charge of £100 in 50 years' time would be equivalent to £37.15 today and conversely £100 today would be worth £269.16 in the future[26]. Therefore, to address this anomaly, it is recommended that use of Annuity approach of Option 3 is continued.

A key consideration when using this methodology is determining the annuity rate to be used. Fortunately, the organisation's treasury advisors (Arlingclose) provide their clients with a forecast each year (see Appendix a.2), which are broadly aligned to the current PWLB certainty rates[27] and so these will be used in the first instance. In the absence of this information, then a proxy rate of 2% will be used (the current Bank of England inflation target) as this provides certainty in a period of stagflation and a volatile inflationary environment that has been experienced in recent years (see Appendix a.1)[28] and mitigates any potential impact from the so-called 'base effect'[29].

Application

As previously agreed, all eligible capital expenditure, incurred prior to 31 March 2022, will continue to be subject to MRP under the Option 3 (Asset Life) method, whereas thereafter the Option 3 (Annuity) approach will be applied i.e. with effect from 1 April 2022.

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

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26 Two percent inflation assumption

27 Normally eighty basis points above Gilt yields

28 CPI 2.5% - December 2024

29 https://blog.ons.gov.uk/2021/05/19/beware-base-effects/

Under both approaches capital expenditure financed by borrowing will not incur an MRP charge until the year after the capital expenditure occurs. Therefore, capital expenditure incurred during 2024/25 will not be subject to an MRP charge until 2025/26 or later. Also, the current guidance also permits that, for significant assets, MRP may be delayed until the asset becomes operational; for example, the ongoing HQ redevelopment project or if land is purchased for the construction of an asset for a specific use.

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

The useful life on assets will normally be charged over a period not exceeding 50 years, except where the organisation has an opinion, from an appropriately qualified professional advisor[30], that an asset will deliver service functionality for more than 50 years[31]. Furthermore, MRP on purchases of freehold land will be charged over 50 years.

Based on the Authority's latest estimate of its capital financing requirement (CFR) on 31st March 2025, the budget for MRP has been set as follows:

Table 1.

	31.03.2025 Estimated CFR £m	**2025/26 Estimated MRP £m**
Total	93.3	3.8

Recommendation

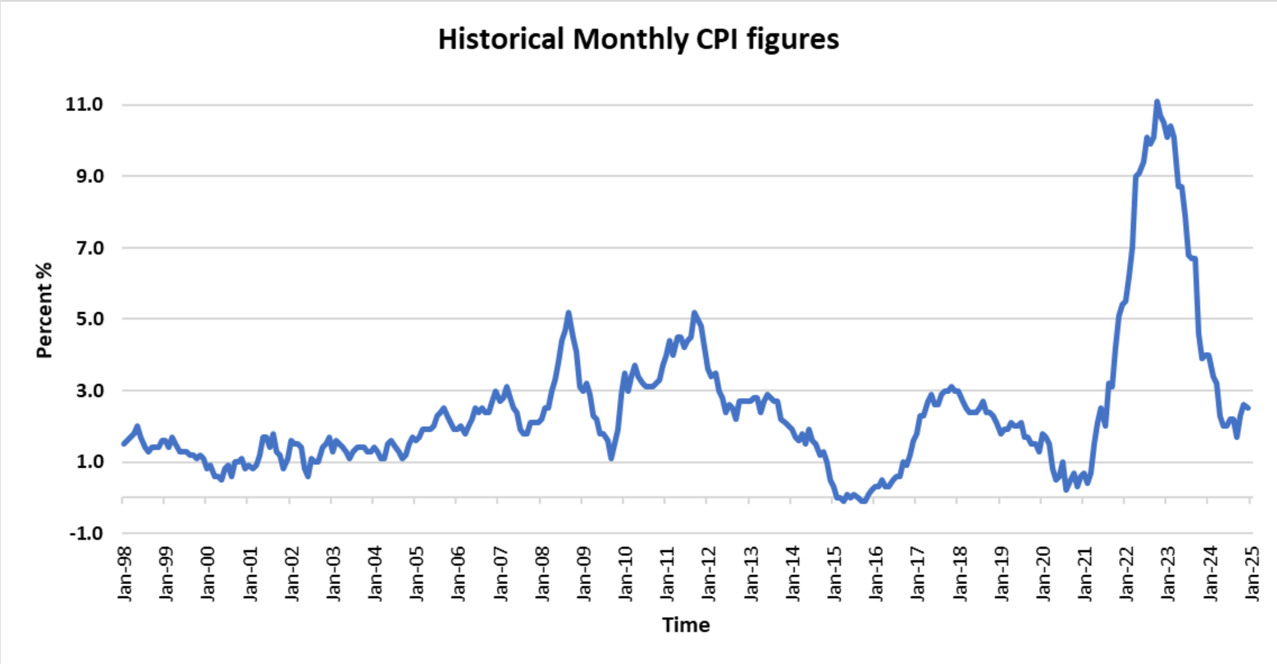
That the Police & Crime Commissioner approve the policy as set out.

30 For example, an RICS qualified land and property valuer

31 Para. 65 of Statutory Guidance on MRP

Appendix a – Annuity information

1. Historical CPI



2. Arlingclose rate forecasts[32]

Years	5	7	10	12	15	20	25	30	35	40	45	50
2024/25	5.00	4.90	4.90	4.90	5.00	5.20	5.35	5.45	5.55	5.55	5.55	5.55
2025/26	5.00	5.15	5.30	5.30	5.40	5.70	5.80	5.85	5.90	5.95	5.95	5.90
2026/27	5.15	5.15	5.40	5.45	5.50	5.80	5.90	5.95	6.00	6.00	6.00	5.95
2027/28	5.35	5.55	5.65	5.65	5.75	6.00	6.05	6.05	6.10	6.10	6.10	6.00
2028/29	5.75	5.75	5.85	5.80	5.90	6.15	6.20	6.15	6.20	6.20	6.20	6.10
2029/30	5.80	5.90	5.90	5.95	6.00	6.25	6.25	6.20	6.25	6.25	6.25	6.10

32 Updated 23 January 2025

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

Example 1

Effective Year	**2024/25**
Principal £'000	**50,000**
Rate	**5.55%**
Asset Life	**50**

Year	Annuity	Equal Instalment	(Decrease)/ Increase
1	200	1,000	(800)
2	211	1,000	(789)
3	223	1,000	(777)
4	235	1,000	(765)
5	248	1,000	(752)
6	262	1,000	(738)
7	276	1,000	(724)
8	292	1,000	(708)
9	308	1,000	(692)
10	325	1,000	(675)
11	343	1,000	(657)
12	362	1,000	(638)
13	382	1,000	(618)
14	403	1,000	(597)
15	426	1,000	(574)
16	449	1,000	(551)
17	474	1,000	(526)
18	500	1,000	(500)
19	528	1,000	(472)
20	558	1,000	(442)
21	588	1,000	(412)
22	621	1,000	(379)
23	656	1,000	(344)
24	692	1,000	(308)
25	730	1,000	(270)
26	771	1,000	(229)
27	814	1,000	(186)
28	859	1,000	(141)
29	907	1,000	(93)
30	957	1,000	(43)
31	1,010	1,000	10
32	1,066	1,000	66
33	1,125	1,000	125
34	1,188	1,000	188
35	1,253	1,000	253
36	1,323	1,000	323
37	1,396	1,000	396
38	1,474	1,000	474
39	1,556	1,000	556
40	1,642	1,000	642
41	1,733	1,000	733
42	1,829	1,000	829
43	1,931	1,000	931
44	2,038	1,000	1,038
45	2,151	1,000	1,151
46	2,271	1,000	1,271
47	2,397	1,000	1,397
48	2,530	1,000	1,530
49	2,670	1,000	1,670
50	2,818	1,000	1,818
Total	**50,000**	**50,000**	**0**

Example 2

Effective Year	**2025/26**
Principal £'000	**10,000**
Rate	**5.85%**
Asset Life	**30**

Year	Annuity	Equal Instalment	(Decrease)/ Increase
1	130	333	(203)
2	137	333	(196)
3	146	333	(188)
4	154	333	(179)
5	163	333	(170)
6	173	333	(161)
7	183	333	(151)
8	193	333	(140)
9	205	333	(129)
10	217	333	(117)
11	229	333	(104)
12	243	333	(91)
13	257	333	(76)
14	272	333	(61)
15	288	333	(45)
16	305	333	(29)
17	323	333	(11)
18	341	333	8
19	361	333	28
20	382	333	49
21	405	333	72
22	429	333	95
23	454	333	120
24	480	333	147
25	508	333	175
26	538	333	205
27	569	333	236
28	603	333	269
29	638	333	305
30	675	333	342
Total	**10,000**	**10,000**	**0**

CAPITAL STRATEGY REPORT 2025/26

Introduction

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

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

Decisions made this year on capital and treasury management will have financial consequences for the organisation for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

Objectives

The key objectives of the Capital Strategy are to:

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

Capital Expenditure and Financing

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

Over the coming three years the organisation is planning capital expenditure of £68.1m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2023/24 actual	2024/25 forecast	2025/26 budget	2026/27 budget	2027/28 budget
TOTAL £m	20.1	32.2	40.2	18.8	9.1

The main capital projects include the HQ redevelopment, ICT, and vehicle fleet replacement. In accordance with the Prudential Code, the organisation will not incur capital expenditure on investments.

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

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

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

- Non-cashable benefits – other benefits such as service improvements and efficiency / productivity benefits
- Mitigation – future cost avoidance

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

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

Table 2: Capital financing breakdown

	2023/24 actual £m	**2024/25 forecast £m**	**2025/26 budget £m**	**2026/27 budget £m**	**2027/28 budget £m**
External sources	0.0	0.0	0.0	0.0	0.0
Capital receipts	0.3	0.0	6.1	8.4	8.6
Revenue resources	0.0	0.0	0.0	0.0	0.0
Debt	19.8	32.2	34.1	10.4	0.5
TOTAL	**20.1**	**32.2**	**40.2**	**18.8**	**9.1**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as a minimum revenue provision (MRP).

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

Table 3: Replacement of prior years' debt finance

	2023/24 actual £m	2024/25 forecast £m	2025/26 budget £m	2026/27 budget £m	2027/28 budget £m
Minimum revenue provision (MRP)	1.6	1.8	3.8	3.6	3.6
Capital receipts	0.0	0.0	16.0	4.5	3.0
TOTAL	**1.6**	**1.8**	**19.8**	**8.1**	**6.6**

The organisation's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £30.3m during 2025/26. Based on the above figures for expenditure and financing, the organisation's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement (excl. leases)

	2023/24 actual £m	2024/25 forecast £m	2025/26 budget £m	2026/27 budget £m	2027/28 budget £m
TOTAL Loans CFR	64.6	93.3	123.6	130.3	127.2

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts.

The organisation plans to receive £16.0m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts receivable

	2023/24 actual £m	2024/25 forecast £m	2025/26 budget £m	2026/27 budget £m	2027/28 budget £m
Asset sales	0.0	0.0	16.0	4.5	3.0
Loans etc repaid	0.0	0.0	0.0	0.0	0.0
TOTAL	**0.0**	**0.0**	**16.0**	**4.5**	**3.0**

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the organisation's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The organisation is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

As a result of decisions taken in the past, the organisation currently has £93.7m borrowing at an average interest rate of 4.06% and £2.5m treasury investment, which is currently achieving an average rate of 3.5%.

Borrowing strategy: The organisation's main objectives when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the organisation therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.

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

Projected levels of the organisation's total outstanding debt (which comprises borrowing, PFI liabilities, leases and transferred debt) are shown below, compared with the capital financing requirement set out in Table 4 above.

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

	2023/24 actual £m	2024/25 forecast £m	2025/26 budget £m	2026/27 budget £m	2027/28 budget £m
Debt (incl. leases)	48.7	93.7	113.7	124.7	127.7
Capital Financing Requirement	64.6	93.3	123.6	130.3	127.2

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

Liability benchmark: To compare the organisation's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £5m at each year-end. The table shows that the organisation expects to remain borrowed below its liability benchmark.

Table 7: Borrowing and the Liability Benchmark

	2023/24 actual £m	2024/25 forecast £m	2025/26 budget £m	2026/27 budget £m	2027/28 budget £m
Outstanding borrowing	48.7	93.7	113.7	124.7	127.7
Liability benchmark	62.9	95.0	125.7	132.7	130.0

Affordable borrowing limit: The organisation is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt

	2024/25 limit £m	**2025/26 limit £m**	**2026/27 limit £m**	**2026/27 limit £m**
Authorised limit – borrowing	(155.0)	(145.0)	(155.0)	(165.0)
Authorised limit – leases	(10.0)	(10.0)	(10.0)	(10.0)
Authorised limit – total external debt	**(165.0)**	**(155.0)**	**(165.0)**	**(175.0)**
Operational boundary – borrowing	(145.0)	(130.0)	(140.0)	(195.0)
Operational boundary – leases	(5.0)	(5.0)	(5.0)	(5.0)
Operational boundary – total external debt	**(150.0)**	**(135.0)**	**(145.0)**	**(200.0)**

Treasury investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The organisation’s policy on treasury investments is to prioritise security and liquidity over yield, which is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares, and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the organisation may request its money back at short notice.

Table 9: Year-end treasury management investments

	2023/24 actual £m	**2024/25 forecast £m**	**2025/26 budget £m**	**2026/27 budget £m**	**2027/28 budget £m**
Short-term investments	6.9	0.0	0.0	0.0	0.0
Longer-term investments	2.5	2.5	2.5	2.5	2.5
TOTAL	**9.4**	**2.5**	**2.5**	**2.5**	**2.5**

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

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to Hampshire County Council officers[33], who must act in line with the treasury management strategy approved by the PCC, with reports on treasury management activity being presented to both the PCC and the Joint Audit Committee on a quarterly basis. The joint audit committee is responsible for scrutinising treasury management decisions.

Commercial Activities

With central government financial support for local public services declining, in 2015 the organisation invested £2.5m in commercial property purely or mainly for financial gain. Total commercial investments are currently valued at £2.2m and comprise the Church Charity Local Authority (CCLA) Property Fund which has provided a net return after all costs of 4.69% since purchase - see Appendix A.

Risk management: With financial return being the main objective, the Organisation accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include expiry of the IFRS9 statutory override[34], a reduction in dividends received and a fall in capital value. These risks are managed by regular meetings with the fund manager and monthly monitoring of performance. In order that commercial investments remain proportionate to the size of the organisation, and to ensure that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services, these are subject to an overall maximum investment limit of £5m.

Governance: Decisions on commercial investments are made by solely by the Commissioner in line with the criteria and limits set out in the investment strategy. Property and most other commercial investments are also capital expenditure and

[33] The Chief Finance Officer retains overall responsibility.

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

purchases will therefore also be approved as part of the capital programme. Both the Monitoring Officer and Chief Finance Officer are responsible for ensuring that adequate due diligence is conducted before investment is made and where deemed appropriate independent and expert advice and scrutiny will be sought.

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

	2023/24 actual £m	2024/25 forecast £m	2025/26 budget £m	2026/27 budget £m	2027/28 budget £m
Total net income from service and commercial investments (£m)	0.3	0.3	0.3	0.3	0.3
Proportion of net revenue stream	<0.1%	<0.1%	<0.1%	<0.1%	<0.1%

Liabilities

In addition to debt of £93.7m detailed above, the organisation is committed to making future payments to cover its Local Government (LGPS) pension fund deficit (valued at £61m surplus – 2023/24[35]).

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

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e., the amount funded from Council Tax, business rates and general government grants.

[35] From page 82 of unaudited 2023/24 financial statements

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

	2023/24 actual £m	**2024/25 forecast £m**	**2025/26 budget £m**	**2026/27 budget £m**	**2027/28 budget £m**
Financing costs (£m)	2.5	4.8	5.4	5.6	9.9
Proportion of net revenue stream	1.0%	1.8%	1.9%	1.9%	3.3%

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Chief Finance Officer is satisfied that the proposed capital programme is prudent, affordable, and sustainable because the level of capital financing is expected to remain below 5% of net revenue expenditure.

Knowledge and Skills

The organisation employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Where organisation staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The organisation currently employs Hampshire County Council as treasury managers and Arlingclose Limited as treasury advisers. This approach is more cost effective than employing such staff directly and ensures that the organisation has access to knowledge and skills commensurate with its risk appetite.

Appendix A – CCLA Pooled Property Fund – December 2024