Meeting	Police & Crime Panel (PCP)
Date	8 February 2024
Title	Precept proposal for 2024/25
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 2024/25 and to enable it to review the proposal.
Recommendation	That the PCP endorses the PCC's proposed precept increase of £13.00 per annum (5.46%) bringing the total policing element of Council Tax, for a Band D equivalent property, to £251.00 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 £13 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: Council Taxbase 2023 in England - GOV.UK (www.gov.uk). Published 8 November 2023

Executive Summary

This report outlines the budget and financial impact of the 2024/25 precept option on which the Police and Crime Commissioner (PCC) has consulted, namely, to increase council tax by £13.00 per annum at Band D (5.46%)[2]. The table below shows the calculation for the council tax requirement for 2024/25, in accordance with section 42A of the Local Government Finance Act 1992.

Table 1.

	£m
Net Budget 2023/24	**253.501**
Standstill costs	20.962
Savings	-7.477
Net Budget 2024/25	**266.986**
Less Home Office Settlement Grants	-142.226
Less Additional Core Grant	-7.847
Less Collection Fund (surplus)/deficit	0.288
Council Tax Precept Requirement for 2024/25	117.201
Estimated number of band D properties (No.)	466,936
2024/25 Band D Precept requirement £ p.a.	**251.00**
Current Band D Precept (2023/24) £ per annum	238.00
Increase required £ per annum	13.00
Increase required % per annum	5.46%

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

Table 2.

Band	Proportion of Band D charge	2023/24 Charge £	2024/25 Charge £	Precept increase £			
				per annum	per month	per week	per day
A	6/9ths	158.67	167.33	8.66	0.72	0.17	0.02
B	7/9ths	185.11	195.22	10.11	0.84	0.19	0.03
C	8/9ths	211.56	223.11	11.55	0.96	0.22	0.03
D	**9/9ths**	**238.00**	**251.00**	**13.00**	**1.08**	**0.25**	**0.04**
E	11/9ths	290.89	306.78	15.89	1.32	0.31	0.04
F	13/9ths	343.78	362.56	18.78	1.56	0.36	0.05
G	15/9ths	396.67	418.33	21.66	1.81	0.42	0.06
H	18/9ths	476.00	502.00	26.00	2.17	0.50	0.07

[2] An increase over £13.00 would require a local referendum.

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1. Commissioner's summary

Just over half (56%) of Hertfordshire Constabulary's funding comes from government with the remainder (44%) from the policing precept part of council tax. This year the government has encouraged Police and Crime Commissioners to raise the precept by £13 a year for the average (Band D) household. This would represent an increase of 25p a week. This is an increase of 5.5 per cent and will raise an additional £6.1m in income which, alongside core government funding, represents a rise of over 7 per cent increase to the total estimated £293m gross budget.

Thanks to investment in previous years Hertfordshire remains one of the safest places to live and work in England and Wales, having the fifth lowest level of recorded crime with 63.6 crimes per 1,000 population. When compared to our neighbouring and most similar county forces we have the lowest amount of crime. When I first became your PCC in 2012 on a typical day in Hertfordshire, we had around eight home burglaries a day, it has now reduced to five.

Hertfordshire now has record officer numbers. The latest headcount of 2,395 officers, is over 400 more than we had a decade ago and I want to be able to maintain that level to tackle the ever-changing nature of crime as illustrated below.

Figure 1: Breakdown of crime types for 2002/03
Source: ONS

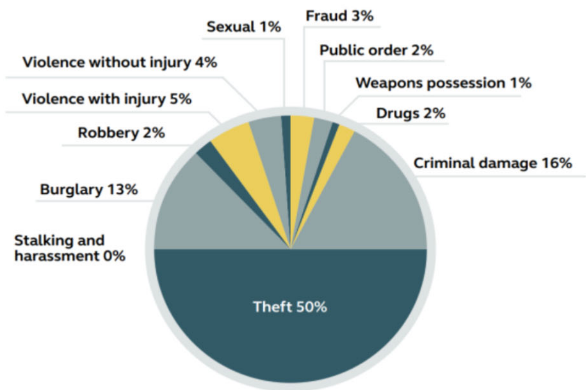
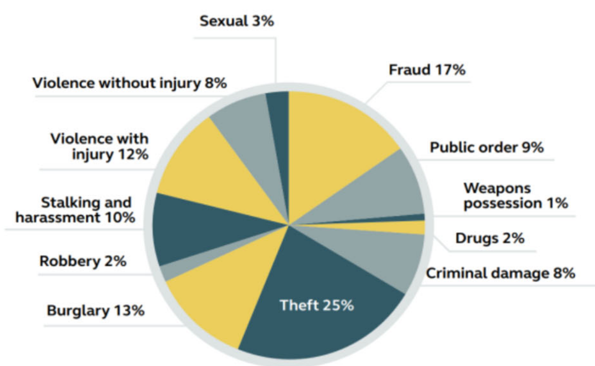


Figure 1: Breakdown of crime types for 2022/23



Thanks to investment in previous years Hertfordshire remains one of the safest places to live and work in England and Wales with 63.1 crimes per 1,000 population. When compared to our neighbouring and most similar county forces we have the lowest amount of crime. When I first became your PCC in 2012 on a typical day in Hertfordshire, we had eight home burglaries a day on a typical day, it has now reduced to even fewer.

I have always believed that my role as a PCC is to listen to the public and they have said loud and clear that they want to see visible and local policing. Designed around the ten local authority boundaries, Hertfordshire's neighbourhood policing model continues to serve us well. I have ensured that each district has at least one major station so there is visible and accessible policing across the county.

The budget is also used by my office to fund a wide range of community safety projects across the county. This includes working with local partners to commission road safety programmes, reoffending reduction services, youth diversion schemes, plus drug and alcohol services. In addition, in the past year my office has brought in over five million pounds of extra government funding to make our streets safer for women and girls, reduce serious violence, tackle vehicle crime and provide victim services. Our award-winning Beacon Fraud Hub continues to provide dedicated support to victims of fraud and has so far been instrumental in recovering over £4m of stolen money for victims.

My commitment has always been that I won't ask residents of Hertfordshire to pay any more for policing than is necessary and currently the county has the fifth lowest policing precept in England and Wales. I am aware that many residents are facing difficult financial situations due to the increases in the cost of living and policing is not immune from these pressures either, with wage and energy increases meaning that total standstill costs for the next financial year are estimated to rise by more than £21m. This comes during a time when some partner agencies have been withdrawing their funding from our joint community safety services.

The Chief Constable and I are always looking for ways to ensure that every pound spent is spent wisely. Collaboration with our neighbouring forces of Cambridgeshire and Bedfordshire have achieved significant savings for Hertfordshire in the past decade, with a further £1.3m in the forthcoming year. This year in Hertfordshire we have conducted an extensive joint efficiency and effectiveness review. This has identified cashable savings which will help to contribute towards bridging the budget gap over the medium term without reducing the number of frontline officers. The use of digital technology and Artificial Intelligence are also being examined to see how extra money can be saved. These savings together with the proposed average £13 a year increase will ensure the progress we have achieved in making Hertfordshire safe for everyone is maintained.

2. A view from the Chief Constable

Ambitious about future performance and committed to preventing crime, this budget proposal for 2024/2025 looks set to provide the platform for sustained operational delivery.

Increasing the precept by £13 (band D equivalent) will enable the Constabulary to safeguard its current policing model with the ten Community Safety Partnerships focused on working with partners to tackle the root causes of crime.

Police officer numbers are at an all-time high and will remain at those levels throughout next year as the force consolidates on this growth by developing and building experience amongst those young in-service officers who are the key to the future.

2023/24 has seen a reduction in overall recorded crime levels and policing outcomes continue to improve. In key crime areas such as violence with injury, serious sexual offences and robbery the force compares very favourably to other policing areas similar in size. The homicide rate in Hertfordshire remains one of the very lowest in the country.

The Constabulary has worked hard to maximise the amount of the budget available that is spent on frontline, operational policing services, through ensuring that the spend on other services supporting frontline policing is efficient and only what is necessary. Our strong collaboration with Bedfordshire Police and Cambridgeshire Constabulary has very successfully helped to achieve this, enabling us to keep costs low. Our benchmarking data clearly demonstrates this, indicating our lower than average spend on support functions has enabled a greater proportion of our budget to be spent on frontline policing services than other forces have been able to achieve.

The £13 increase in council tax is essential if the Constabulary is to continue on this path, which we believe is delivers a professional and effective police service to the people of Hertfordshire. It will enable us to maintain the current workforce strength and asset base whilst continuing to deliver on the priorities set out by the Police and Crime Commissioner, the Strategic Policing Requirement, and our own ‘plan on a page’.

Despite a raise in precept the Constabulary will continue to operate in a financially challenging environment and will face some difficult budgetary decisions. During 2023/24 it has been necessary to carry significant police staff vacancies to help balance the budget and this budget proposal will not enable these vacancies to be filled during 2024/25. The budget proposal is to take these vacant posts as savings in the knowledge that the Constabulary has been able to sustain good performance despite holding these posts vacant. This also enables the budget for 2024/25 to be achieved without requiring redundancies.

One consequence is to reduce the PCSO establishment to the existing staffing level of 160 FTE. The constabulary does so whilst remaining fully committed to neighbourhood policing, a key element of our Prevention First strategy, and this will still maintain higher numbers of PCSOs than most other forces. Some further police staff posts will also be removed across various functions within the organisation. There will be no job losses given the number of vacant posts but their removal will bring some operational pressures.

Prevention First remains at the heart of our operational policing strategy as the force strives to reduce the number of people who fall victim to crime or harm. This budget safeguards the Prevention First approach, our work with partners, and enables the force to focus on the priorities detailed in the control strategy.

The Constabulary also continues to focus on standards within the organisation and developing a culture to be proud of. We remain dedicated to rooting out poor behaviour and addressing misconduct as we strive to rebuild the public trust so badly damaged by some shocking and high-profile cases involving serving officers.

In common with many parts of the public sector and as flagged in the most recent Force Management Statement, recruitment and retention must remain a focus. Our government grant requires us to maintain our police officer uplift numbers, meaning our recruitment and retention efforts must continue. Whilst these officers bring great benefit to the constabulary and the public, maintaining such numbers will require the increases in council tax set out in this budget to simultaneously sustain necessary staffing levels in other key areas of business. This includes the Force Control Room and other key areas where police staff predominate, such as our criminal justice teams. Whilst decisions regarding annual pay-rises are outside of the control of the Constabulary, this budget will allow the Force to meet projected pay and reward commitments.

As identified in the Force Management Statement, Information Technology is a key investment area; this capital programme will ensure that key systems are maintained and give the force the opportunities to invest in new technology and innovations that will make us more productive and support the drive to stay ahead of criminality.

The force also needs to plan for its future and this includes investment in key parts of the police estate that are no longer fit for purpose. There is significant investment in providing new facilities for operational and support teams at both at Police Headquarters and at

Watford, delivering long overdue replacements of ageing facilities. A productive workforce is contingent upon having fit for purpose buildings to operate from.

Despite the financial pressures, I remain confident that Hertfordshire Constabulary will still deliver a first-rate service which I know the Police and Crime Commissioner, on behalf of the public, rightly demands.

Our shared vision for continuous improvement can be delivered through this £13 council tax increase and I look forward to working with colleagues from across the force to make 2024/25 another successful year for policing in Hertfordshire.

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 2024/25 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 2024/25 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.

The Panel must therefore review the proposed precept notified to it and provide a report on the proposal to the Commissioner by the date of this meeting (8 February 2024).

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

4. The Funding Context

The economic landscape has remained challenging since the last settlement, most notably with inflation remaining high, with CPI currently running at 4.2% (December 2023), over double the Government target of 2% and the Bank of England base rate increasing on four occasions to today’s 5.25%.

Core grant is expected to rise by no more than 0.5% after 2024/25 (as per the current CSR), which in light of the current and forecast inflation levels represents a significant and sustained real terms cut in government funding. In the Autumn 2023 statement the chancellor also announced that public sector spending increases would not exceed the growth in the wider economy as a whole. Given the very modest growth estimates for the UK economy over the medium term and the fact that the Home Office has hitherto not been a protected department when it comes to savings requirements, the chancellor’s words point to little prospect of a substantial increase in government funding for policing in the near future. This, coupled with decreasing collections rates and slowing council tax base growth detailed elsewhere in this paper, means that all sources of funding for the constabulary remain under significant pressure and that without a fairly major reversal, the total constabulary budget will continue to reduce in real-terms and the constabulary will likely have fewer resources in the future as consequence.

When setting their 2023/24 budget many forces were expecting a pay award of between 2% and 3%, but in July 2023 the government announced that police officers and staff were awarded a 7% increase on all pay points. After the announcement, the then Home Secretary announced additional funding to help cover the increased pressure on budgets of £70m in 2022-23, £140m in 2023-24 and £140m in 2024-25. This assumed that next year’s pay award would drop back down to previous assumptions.

Alongside the provisional settlement the Policing Minister set out his expectations for this investment as follows: “In return for this significant investment, it is imperative that policing continues to deliver on driving forward improvements to productivity and identifying efficiencies where possible. The Government will continue to work with the sector to unlock the full range of opportunities and benefits of productivity and innovation to enable officers to have the tools to deliver on their core mission of keeping the public safe. We, therefore, expect policing to approach the 2024-25 financial year with a focus on this Government’s key priorities:

- Maintaining 20,000 additional officers (148,433 officers in total nationally) through to March 2025.

- Continuing to deliver on the opportunities presented by new technology and innovation to deliver improvements in productivity and drive forward efficiencies, therefore maximising officer time and service to the public.

- Improving the visibility of police officers and focusing on providing a targeted approach to tackling crime and antisocial behaviour to make neighbourhoods safer, which should be a priority for all forces."

There are no new specific savings targets set, and the Government recognises that police have already exceeded the efficiency targets set at the start of the spending review period. The recently published Policing Productivity Review estimated that if all the recommendations were followed the equivalent of 20,000 officers could be freed up over the next 5 years. The Government will respond to the review in 2024. The statement also references the new reallocation of £11m for "Police Productivity and Innovation" as well as the Home Office maintaining the NPCC Chief Scientific Advisor's funding pot to identify and support local innovation within forces with productivity benefits.

5. Grant Settlement

The 2024-25 Provisional Settlement was announced on 14 December 2023 in a written statement by the Crime and Policing Minister and full details of the Settlement can be found on the Home Office website here. The deadline for responses to the provisional settlement was 5pm on 10 January 2024. 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 £7.8m and resultant overall settlement grant funding of £150.0m.

Table 3.

	2023/24 £m	2024/25 £m
Core Grant	131.998	139.844
Council Tax Legacy Grant	10.228	10.228
Total	**142.226**	**150.072**
Change on previous year (£m)	0.456	7.847
Change on previous year (%)	0.32%	5.47%

This total increase includes:

- Funding to mitigate the impact of the award of a 7% pay award for both police officers and staff from 1 September 2023, the Home Office has provided additional funding to support forces in meeting the higher than budgeted cost. National funding totalling £330m in 2023/24 and £515m in 2024/25 was announced by the Home Office in July 2023. For 2024/25 this funding sits within core grant.

b. Specific Grant - Police Uplift Programme (PUP) maintenance funding - £7.1m

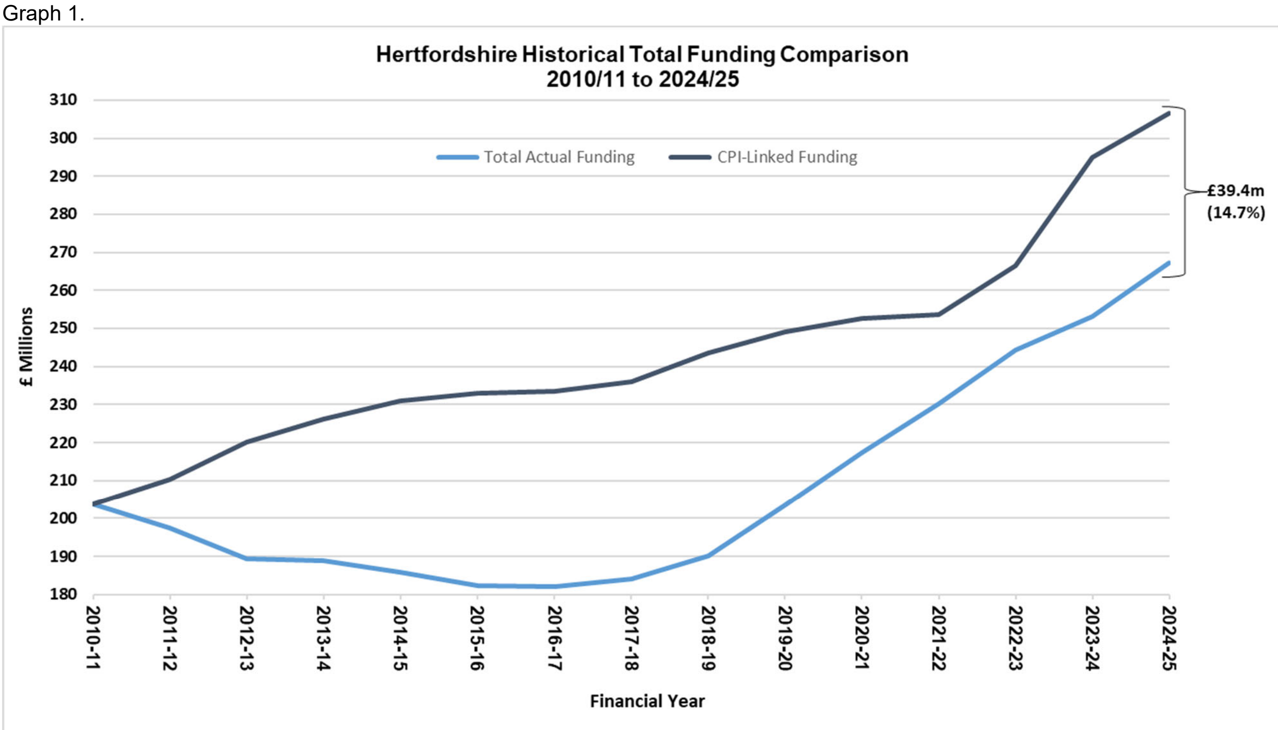
The Home Office have yet to confirm the exact mechanism for receiving PUP Maintenance funding for 2024/25. However, the Home Office has committed to maintaining police officer numbers, and PUP Maintenance funding in the form of Maintenance Grant, linked to maintaining Officer numbers, was introduced in 2023/24 totalling £4.197m. During 2023/24 further maintenance grant was made available to forces in two tranches. For Herts this took the form of two tranches, each of 12 officers, funded at £45k per officer. The Provision Police Settlement has confirmed that the first of these tranches will be built into the Constabulary's PUP target, increasing it to 2,393 with associated additional funding of

[4] No changes to the Police Funding Formula are anticipated in 2024/25.

£0.540m. In addition, the Provisional Settlement confirmed the overall quantum of funding linked to maintaining police officer numbers has been increased by a further £2.3m and so PUP funding will total £7.1m in 2024/25 with receipt assumed contingent upon maintaining officer numbers at or above 2,393 head count for each of the two check points.

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 £39.4m less in 'real terms'.

Graph 1.



c. Police Officer Pension Grant - £6.9m

The Provisional Settlement confirmed that Police Pension Fund grant will increase by £4.875m to cover the cost of the increased employer contribution rate from 31.0% to 35.3%, following the latest revaluation of the scheme.

d. Capital Grant

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

e. 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 2024/25 has been confirmed at the same level as the current year at Hertfordshire's 2024/25 allocation will be same as the previous year at £2.368m and comprises the following elements:

Table 4.

Grant element	**Amount £m**
Victims Services Core budget	1.383
ISVA[5] / IDVA[6] Baseline Funding #1	0.323
ISVA / IDVA Additional Funding #2	0.208
ISVA / IDVA Additional Funding #3	0.259
Domestic Violence/Sexual Violence services ring fenced	0.195
Total funding	**2.368**

[5] Independent Sexual Violence Adviser
[6] Independent Domestic Violence Adviser

6. Council Tax income

On the 14 December 2023 guidance was issued by the Home Office amending the council tax referendum principles to £13 on a typical Band D property. The guidance also stated:

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

a. Taxbase

The taxbase is calculated by the billing authorities by converting all properties to Band D equivalents and making assumptions about the levels of discounts to be offered and the amount of tax to be collected. The final council tax base and collection fund balance estimates for Council Tax provided by the 10 billing authorities estimate the police tax base to increase by 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 2023/24**	**Tax Base 2024/25**	**Change increase/(decrease)**	
	No.	**No.**	**No.**	**%**
Broxbourne Borough Council	36,137	36,433	296	0.82%
Dacorum Borough Council	59,922	60,277	354	0.59%
East Herts District Council	63,893	64,810	917	1.44%
Hertsmere Borough Council	43,176	43,179	3	0.01%
North Herts District Council	50,664	50,566	(98)	(0.19%)
St Albans District Council	63,714	64,015	302	0.47%
Stevenage Borough Council	28,153	28,579	426	1.51%
Three Rivers District Council	39,545	39,851	306	0.77%
Watford Borough Council	35,532	35,352	(180)	(0.51%)
Welwyn Hatfield District Council	43,867	43,875	8	0.02%
TOTAL	**464,603**	**466,936**	**2,333**	**0.50%**

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 – 2024/25	466,936
Number of band D properties – 2023/24	464,603
Increase in tax base properties	2,333
Band D council tax rate	£238.00
Increased tax base income	**£0.555m**

b. Collection fund

The collection fund reflects the year-to-year differences between estimated and actual collection of council tax because of changes in collection rate and levels of tax base growth. At the time of writing the figures have been received from all but one of the districts and so a prudent estimate of £0.288m has been assumed, which would be a year-on-year decrease of circa. £0.987m. The table below provides an illustration of the overall change between years.

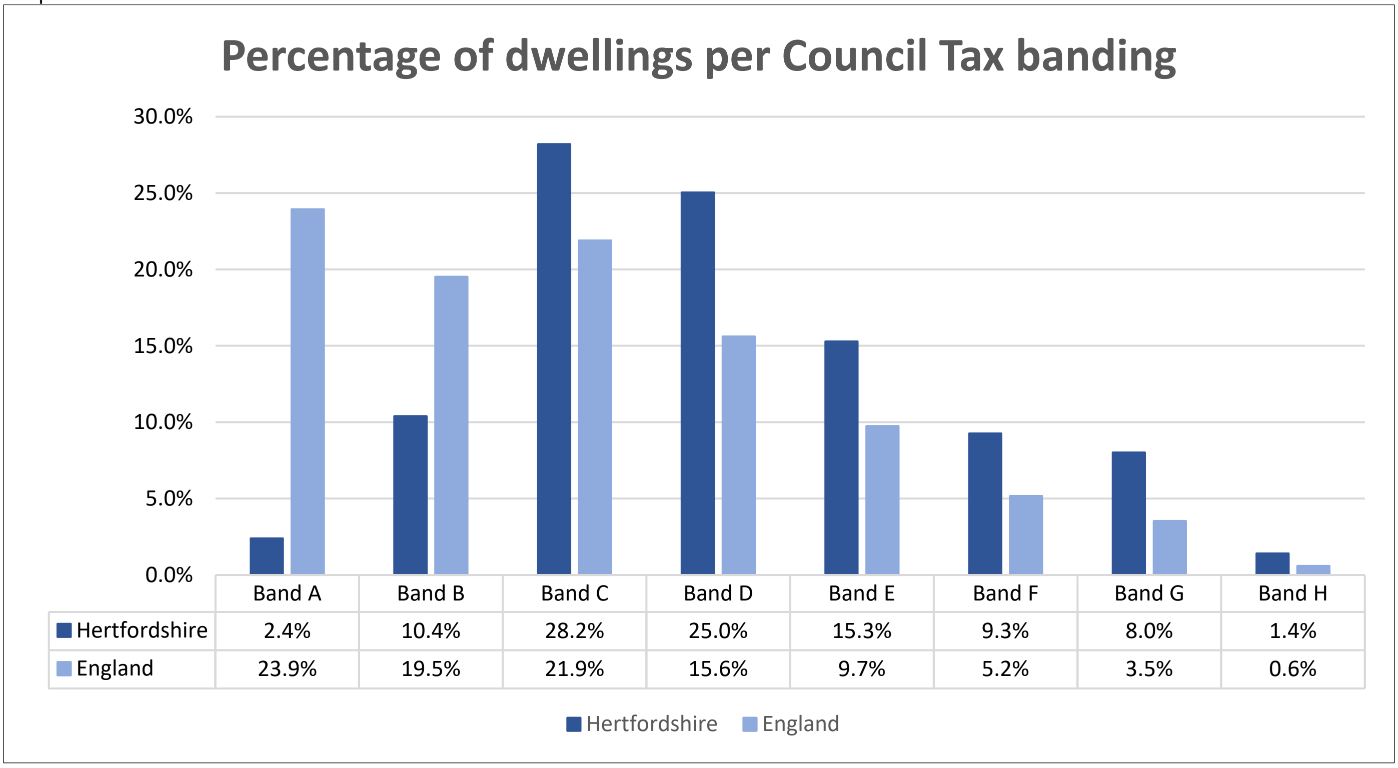
Table 7.

Draft Collection Fund Surplus/(Deficit) relating to the PCC			
Billing Authority	**2023/24 £**	**2024/25 £**	**Change £**
Broxbourne Borough Council	367,974	3	(367,971)
Dacorum Borough Council	48,190	75,855	27,665
East Herts District Council	149,201	-	(149,201)
Hertsmere Borough Council	47,783	(87,986)	(135,769)
North Herts District Council	115,577	(19,991)	(135,568)
St Albans District Council	406,197	33,401	(372,796)
Stevenage Borough Council	45,760	162,151	116,391
Three Rivers District Council	(187,240)	(79,241)	107,999
Watford Borough Council	(11,360)	(80,721)	(69,361)
Welwyn Hatfield District Council	(282,580)	(291,111)	(8,531)
TOTAL	**699,502**	**(287,641)**	**(987,143)**

c. Band D Council Tax

The band D council tax policing precept proposed for 2024/25 is £251.00, an increase of £13.00 or 5.46% on the comparable figure for 2023/24. The graph below shows the composition of the chargeable dwellings in Hertfordshire in comparison to the average for England[7].

Graph 2.



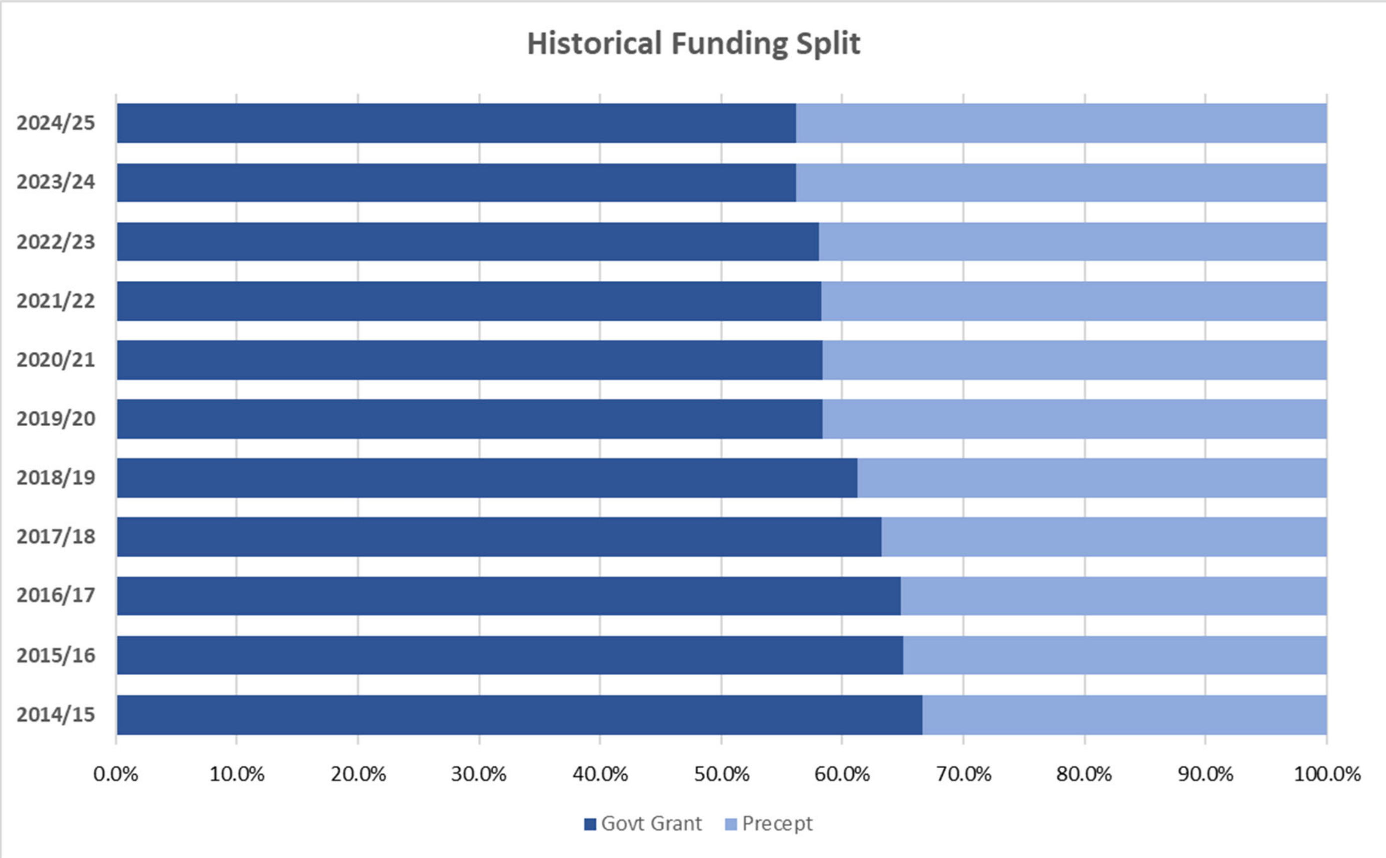
	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
Hertfordshire	2.4%	10.4%	28.2%	25.0%	15.3%	9.3%	8.0%	1.4%
England	23.9%	19.5%	21.9%	15.6%	9.7%	5.2%	3.5%	0.6%

As shown above, 66.0% of Hertfordshire's properties are in Bands A to D and so will pay £251.00 or less for the policing element of their council tax.

[7] As per October 2023

In 2024/25 council tax income accounts for 43.9%[8] 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 10.5%, away from central government grant funding towards locally determined precepting[9].

Graph 3.

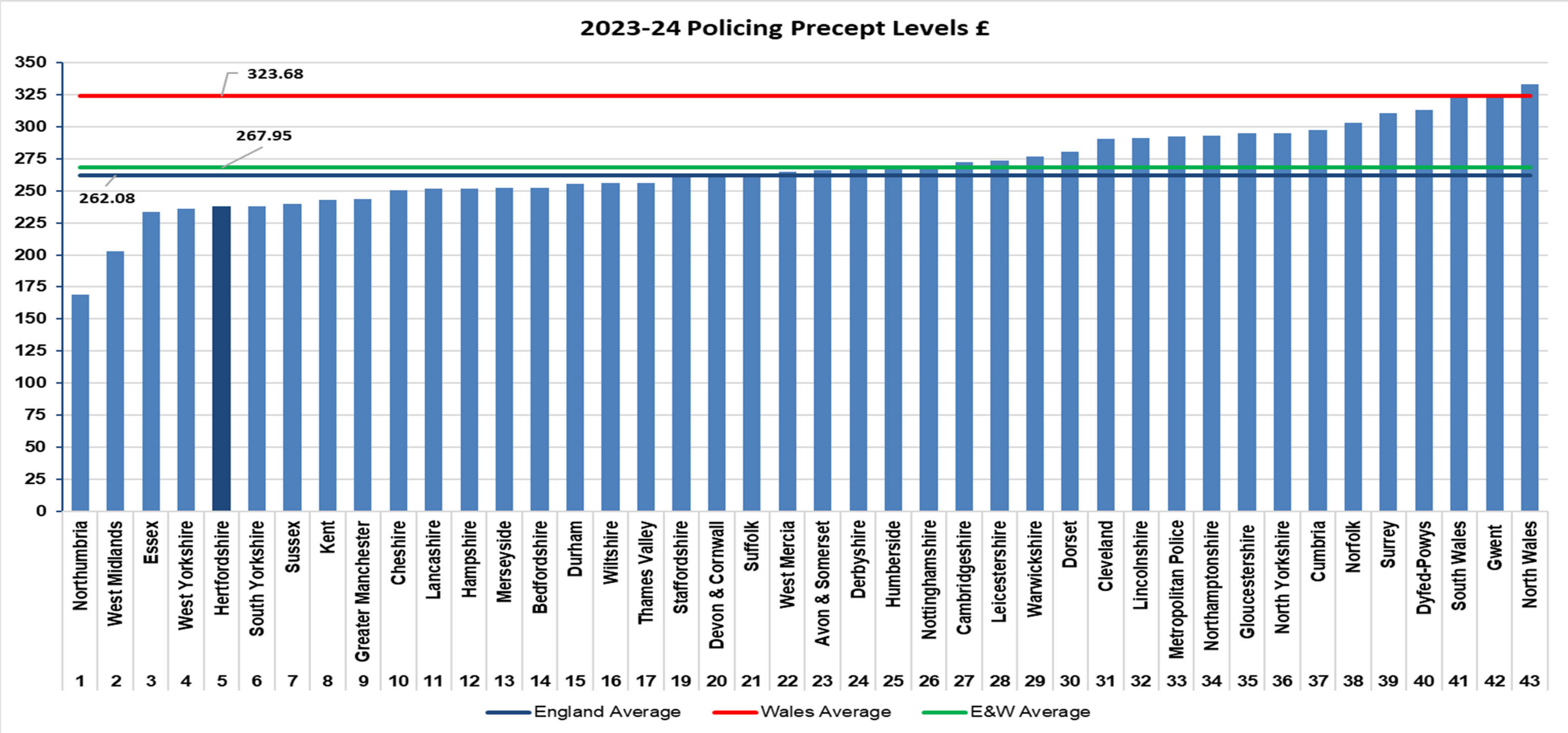


8 Nationally the precept element ranges from 19% (Northumbria) to 55% (Surrey).

9 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 £238.00 is the 5th lowest in the country and is 11% below the average of the 43 precepting forces[10] in England & Wales of £267.95. The graph below shows how Hertfordshire's 2023/24 precept level compares.

Graph 4.



10 Excludes City of London at £142.01

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 £5.638m increase in council tax income for 2024/25.

Table 8.

Council Tax Element	**£m**
Precept increase	6.070
Tax base increase	0.555
Collection fund change	(0.987)
Total Council Tax increase	**5.638**

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

7. 2024/25 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 2024/25 totals £20.962m and comprises the following:

Table 9.

Standstill Costs	2024/25 £m
Officer Pay	17.525
Staff Pay	5.873
Non-Pay	3.603
Capital Financing	1.680
Specific Grants	-7.718
Total	**20.962**

a. Police Officer pay costs – £17.525m

Police Officer Pay Award 2023/24 - The 2023/24 budget included funding for a police officer pay award of 2.0% from 1 September 2023. The final award was set at 7.0% for all ranks and spinal points. As set-out above, the Home Office have provided additional funding to help mitigate the excess cost of the 2023 pay award. The overall additional cost of the 2023/24 pay award totals £6.354m is included within the 2023/24 standstill budget. Further it has been assumed that a 2.0% award will be payable form 1 September 2024 at a cost of £2.836m in 2024/25 At this stage the police officer pay award for 2024/25 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.

Reinstatement of Police Officer Recruitment Phasing - The 2023/24 budget included a phasing allowance based upon the assumption of staring that year below establishment. Following a late recruitment surge in March 2023, officer numbers finished 2022/23 16 FTE above budgeted establishment contributing significantly to the current forecast overspend on police officer pay in 2023/24. Officer numbers are forecast to be at or above budgeted establishment at the start of 2024/25 and therefore the recruitment phasing adjustment needs to be removed at a cost of £1.5m.

Police Officer Pension Scheme Contributions £4.875m - The outcome of the police officer pension scheme revaluation is an increase in the employer contribution rate from 31% to 35.3% of pensionable pay. In the Provisional Settlement the Home Office has provided additional; grant funding to cover the increased cost.

Average Police Pay £1.960m - The current scheme of maintenance grant penalties, announced by the Home Office in March 2023, is at odds with the introduction in the 2023/24 of the 1% police officer vacancy factor. The vacancy factor is equivalent to the removal of funding for 19 FTE police officer posts and a spend pressure of £1.2m. Other factors impacting upon officer average rates are, the force's success at attracting transferees and the current cohort of 23 temporary Sergeants, both of which put upward pressure on the average police officer rate.

b. Police Staff pay costs – £5.873m

Police Staff Pay Award 2023/24 - In line with the police officer pay award, the police staff pay 2023/24 budget included funding for a 2.0% increase from 1 September 2023. The final award was set at 7.0% for all grades and spinal points and Home Office provided additional funding to help mitigate the excess cost. The overall additional cost of the 2023/24 pay award totals £3.936m is included within the 2023/24 standstill budget.

In addition, it has been assumed that a 2.0% award will be payable form 1 September 2024 at a cost of £1.937m in 2024/25. 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.

c. Non-Pay inflation - £3.603m

Provision has been made in the MTFS for general inflation in line with the latest OBR forecasts for CPI. For 2024/25 the budget includes an allowance for 3.6% general inflation across non-pay budgets at a cost of £2.268m, of which £0.991m will be held centrally to target areas or pressure during 2024/25. In addition, specific pressures on non-pay budget include General Rate £0.250m, Utilities £0.750m, net increases to insurance premiums £0.165m and External Audit Fees £0.104m.

d. Capital Financing and HQ Redevelopment costs - £1.680m

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 be incurred over the next four years and as a result there will be a proportional increase in the level of interest on borrowing paid (amplified by a near threefold increase in interest rates over the last year), the PCC will be required to make higher levels of Minimum Revenue Provision (MRP) resulting from the funding of the capital programme through the Capital Financing Requirement (CFR), and finally in order to minimise the level of borrowing required, cash balances will be lower leading to a reduction in investment interest received.

The annual costs associated with the redevelopment of the Headquarters (HQ) that cannot be capitalised and so must be charged to revenue. These costs include the rental cost of Titan Court and temporary catering facilities at HQ. These costs are forecast to increase by £0.155m in 2024/25 to £0.873m. The cost is removed in 2027/28 following the expected return of decamped staff to the redeveloped HQ site.

e. Specific Grants - £7.718m

An increase in specific grants of £7.718m, consisting of PUP Maintenance Grant (£2.843m increase) and Police Officer Pensions Grant (£4.875m increase), was confirmed in the Provision Police Settlement.

8. Savings

The savings requirement for 2024/25 totals £7.477m and the following areas have been identified.

Table 10.

	2024/25 £m
Police staff reduction	0.600
Overtime efficiency	0.207
Reduction in PCC grants	0.750
Coroner's service	0.104
Phasing of staff recruitment	0.700
Force Control Room staff reduction	1.269
BCH Collaborated units	1.300
Police Uplift Programme overage	1.270
Departmental efficiencies	1.277
Total	**7.477**

Detail of each saving proposal is set out below:

Police staff reduction - £0.600m

This will see the PCSO establishment reduce to 160 FTE, from its current level of 235 FTE. This will not result in any redundancies as there are currently over 75 FTE PCSO vacancies and have been for the last 12 months, so although this is an on-paper reduction, in practice the PCSO presence in communities will be no different in 2024/25 compared to 2023/24. Hertfordshire constabulary continues to benchmark well (high) nationally in respect of the relative investment in local policing and continues to benchmark well (low) in terms of its investment in support functions. This is entirely intentional and reflective of decisions taken over the last decade or so to maintain the focus on, and investment in local policing (largely at the expense of back-office functions). This reduction in establishment will not materially affect that position and Hertfordshire will continue to have one of the highest levels of investment in local policing of any force in England and Wales.

Overtime efficiency saving - £0.207m

The constabulary has implemented a number of additional controls throughout 2023/24 to improve the management of overtime. These changes include increasing the level at which overtime is authorised, removing miscellaneous categories and the development of much improved reporting. These additional controls have led to a reduction in the rate of overtime used throughout the year. The controls will remain in place for 2024/25 and as such the pattern of reducing overtime spending is expected to continue.

Reduction in PCC Grants - £0.750m

The PCC grants budget is to be reduced to a level which reflects previous years expenditure levels.

Coroner's service - £0.104m

This represents the second phase of a 2-year reduction in funding to Hertfordshire County Council, who have the statutory responsibility to deliver this service, and bring the Constabulary in line with other forces across the country.

Phasing of Staff Recruitment - £0.700m

The constabulary has carried a substantial number of police staff vacancies through 2023/24 and will start 2024/25 in a similar position. Much of this position is deliberately engineered to try and offset some of the spend of the overspend on police officer pay arising from the ring-fenced grant funding mechanism introduced for Uplift officers in 2022/23. The lead times for recruitment are such that it is highly unlikely that all the vacant posts (over and above the vacancy factor) will be filled during the financial year. This saving recognises therefore the level of vacancies that will be held throughout 2024/25.

Force Control Room (FCR) staff reduction - £1.269m

The FCR historically held an establishment of police officer posts that in practice were unfilled and therefore created a resourcing pressure in the control room. In 2021/22 the constabulary removed those posts and replaced them with police staff posts. Recruitment to the police staff posts has proved problematic and the FCR has not reached full strength since 2021/22. These vacancies have created a resourcing and performance pressure in the control room which has been mitigated to some extent by placing officers and staff into the control room on overtime. This approach is sub-optimal in terms of long-term sustainability and very inefficient (expensive). The constabulary is proposing therefore to increase the number of police officer posts in the FCR by 30 posts and reduce the police staff establishment by the same amount, and a new posting process for officers will ensure that the constabulary does fill all of the posts. As the police staff posts are currently budgeted and the officer posts will be drawn from the existing Uplift numbers, the removal of the police staff posts generates a cashable budget reduction.

Beds Cambs Herts (BCH) Collaborated units - £1.300m

The collaborated departments have been given a target of £3m in total to deliver, this is less than 3% of total collaborated budgets. The majority of spend in collaborated team is on staffing (as is common with the rest of the constabulary), given the de-facto restrictions on officer numbers this means that the majority of savings will be found from police staff posts. In line with the rest of the constabulary, the collaborated teams are carrying vacancies, and the focus is very much on increasing vacancy factors to absorb the budget reductions.

Police Uplift Programme overage reduction - £1.270m

This will be a reduction of 20 FTE police officer posts that are currently over and above the constabulary's Uplift target. These posts have not yet been filled and have not been allocated to any department in the organisation therefore there is no immediate operational impact and no impact on the delivery of Uplift which is measured by headcount as opposed to posts.

Departmental efficiencies – £1.277m

The majority of devolved non-pay budgets will be frozen at 2023/24 cash levels. This is a real terms cut but as most of this expenditure is related to non-contract spend and/or contract spend with no minimum values; it is deliverable albeit with some manageable local impact.

9. Investment

The budget workshops held during the summer did not identify significant areas for strategic investment and as such Chief Officers are of the view that the current resource allocation between units is broadly correct. Any investment opportunities identified in-year will be funded by compensatory efficiencies.

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 2024/25 is £4.135 million, of which £2.498 million relates to the Office of the PCC. This represents 0.85% of the Hertfordshire police's gross budget, falling 0.15 percentage points below government expectations of PCC running costs being less than 1% of total policing costs[11].

Table 11.

	2023/24 £'000	2024/25 £'000	Change £'000
OPCC Budget	2,415	2,498[12]	83
Criminal Justice Board (CJB)	150	156	6
Victims Services	2,504	2,504	0
Road Safety Expenditure	350	350	0
PCC Grants	2,233	1,345	(888)
PCC Gross Budget	**7,652**	**6,853**	**(799)**
Road Safety funding	(350)	(350)	0
Ministry of Justice Grant Income	(2,368)	(2,368)	0
PCC Net Budget	**4,934**	**4,135**	**(799)**

The OPCC and CJB budget increase of £0.089m reflects the September 2023 national pay increase of 7% per annum and an additional assumed 2% increase effective September 2024. Notably, unlike most PCC offices across the country, Hertfordshire handles the initial handling of police complaints internally, leading to higher personnel and operational costs reflected in the budget set out above.

The PCC Grants budget has been reduced by £0.888 million, which consists of £0.750m in savings based on historical expenditure patterns and £0.138m in budget transfer to the Constabulary. The transferred budget will fund the Return Home Interview (RHI) contract, a service that offers independent interviews to all children and vulnerable or at-risk adults who return home after being missing[13].

[11] Source: Staff and budget for police and crime commissioners - GOV.UK (www.gov.uk)
[12] Includes the salary of the both the PCC (£78,400) and Deputy PCC (£32,460), but excludes any incremental drift associated with staff progressing through the pay scales.
[13] As recommended in the College of Policing Authorised Professional Practice (APP) guidance.

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) 2.0% per annum pay award is applied to all officers and police staff. Payable from 1 September each year.
c) Annual increment growth for both police officers and police staff will be matched by the drop in increments through turnover.
d) Non-Pay inflation applied to other areas of expenditure 3.6% in 2024/25 and will average 1.6% per annum thereafter.
e) The rates of employer's national insurance employer contributions remain the same as those for 2024/25 levels across the MTFS.
f) Employer superannuation contributions remain the same for both the Police Pension Scheme and the LGPS as in 2023/24 across the MTFS.
g) An increase in the Council Tax Base of 0.89% in 2024/25 and 1.09% per annum thereafter.
h) That the Council Tax collection fund will be in deficit by -£0.700m in 2025/26 -£0.350m in 2026/27 and breakeven in 2027/28.
i) That the precept will increase from 2025/26 at 2.0% for each year of the MTFS.

The table below summaries the assumptions listed above.

Table 12.

Budget element	2024/25	2025/26	2026/27	2027/28
Pay Awards	2.0%	2.0%	2.0%	2.0%
Non-Pay Inflation	3.60%	1.80%	1.40%	1.70%
Core Grant	5.52%	0.50%	0.50%	0.50%
Taxbase	0.50%	0.89%	1.09%	1.09%
Collection Fund Deficit £	-0.987	-0.700	-0.350	-
Min Precept increase £	13.00	5.02	5.12	5.22

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

Table 13.

Grant element	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**
Core Grant	139.844	-140.600	-141.359	-142.122
Council Tax Legacy Grant	10.228	-10.228	-10.228	-10.228
Total	**150.072**	**-150.828**	**-151.587**	**-152.350**
Change on previous year (£m)		-0.756	-0.756	-0.759
Change on previous year (%)		0.50%	0.50%	0.50%

The standstill budget requirements for the period to 2027/28 totals £45.5m and comprises the following:

Table 14.

Standstill Costs	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**Total £m**
Officer Pay	17.525	3.029	3.092	3.155	26.801
Staff Pay	5.873	4.238	2.324	2.091	14.526
Non-Pay	3.603	1.125	0.934	1.092	6.754
Capital Financing	1.680	0.410	1.089	1.923	5.102
Specific Grants	-7.718	-	-	-	-7.718
Total	**20.962**	**8.802**	**7.439**	**8.261**	**45.464**

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

Table 15.

Budget element	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**Total £m**
Standstill costs	20.962	8.802	7.439	8.261	45.464
Core Grant	-7.847	-0.755	-0.759	-0.763	-10.124
Taxbase & Collection Fund	0.432	-0.343	-0.965	-1.356	-2.232
Precept increase	-6.070	-2.365	-2.438	-2.513	-13.386
Investment	-	-	-	-	-
Budget Gap	**7.477**	**5.339**	**3.277**	**3.629**	**19.722**

The table above shows the medium-term financial strategy based upon high level spending and income assumptions and the 17 November Autumn statement. The plan sets out a budget gap of £7.477m in 2024/25 and £19.7m by 2026/27.

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

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

Table 15.

Variable	**1% Variance (£m) (+/-)**
Police Pay	0.795
PCSO/Police Staff Pay	0.493
Utilities	0.017
Fuel	0.013
Supplies and Services	0.275
Police Grant	-1.501
Precept	-1.111
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 2.0% increase assumed and finally a continuation into 2024/25 of the current high levels of inflation on no pay items.

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

12. Medium-term savings proposals

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

Table 16.

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	Total £m
Budget Gap	**7.477**	**5.339**	**3.277**	**3.629**	**19.722**
BCH Collaborates Unit Savings	-1.300				-1.300
Coroners Service Remove Funding	-0.104				-0.104
Overtime Efficiency Saving	-0.207	-0.105	-0.107	-0.109	-0.528
OPCC Commissioning Budgets	-0.750				-0.750
Phasing of Staff Recruitment	-0.700				-0.700
Force Review	-4.416	-5.234	-3.170	-3.520	-16.340
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 2024/25, as set out in Section 8, the force review team is continuing to look at structures, resourcing and demand across the constabulary and will continue to generate options for savings in future years. Although there are as yet no detailed business cases for 2025/26 and beyond, unless there is a change to the current grant funding regime for Uplift posts, it is high likely that any material savings going forward will have to come from reductions to the police staff establishment. The constabulary will look to minimise any compulsory redundancies (as it has done for some years now) and will utilise established mechanisms such as the police staff recruitment panel to ensure that there are sufficient vacancies held across the organisation to absorb any reductions in police staff numbers.

13. Capital Programme

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

Table 17.

Capital Programme	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m	2031/32 £m	2032/33 £m	2033/34 £m	Total £m
HQ Redevelopment	15.898	36.011	6.110	-	-	-	-	-	-	-	**58.019**
HQ Interest	0.734	1.526	1.758	-	-	-	-	-	-	-	**4.018**
Memorial Garden	0.250	-	-	-	-	-	-	-	-	-	**0.250**
Dogs	0.500	-	-	-	-	-	-	-	-	-	**0.500**
Smarter Working	0.300	-	-	-	-	-	-	-	-	-	**0.300**
Training Facility	-	-	-	1.000	6.000	1.000	-	-	-	-	**8.000**
Building Improvement & Sustainability	0.700	0.450	0.450	0.450	0.450	0.450	0.450	0.450	0.450	0.450	**4.750**
Cheshunt Blue Light Hub	0.050	0.500	1.500	4.000	-	-	-	-	-	-	**6.050**
ICT	2.696	2.781	2.781	2.781	2.781	2.781	2.781	2.781	2.781	2.781	**27.725**
Fleet	2.578	2.717	2.780	2.836	2.893	2.951	3.010	3.070	3.131	3.194	**29.160**
ESN	-	-	2.906	2.623	0.635	-	-	-	-	-	**6.164**
ANPR	0.260	0.260	0.260	0.060	0.060	0.060	0.060	0.060	0.060	0.060	**1.200**
Surveillance Counter Measures Equipment	0.092	-	-	-	-	-	-	-	-	-	**0.092**
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**
Custody CCTV	0.555	-	-	-	-	-	-	-	-	-	**0.555**
Taser replacement	0.175	0.175	0.175	0.175	0.175	0.175	0.175	0.175	0.175	0.175	**1.750**
Total Capital	**24.923**	**44.555**	**18.855**	**14.060**	**13.129**	**7.552**	**6.611**	**6.671**	**6.732**	**6.795**	**149.883**

The estimated total project cost of the major, multi-year, estates schemes is as follows:

HQ Redevelopment	£72.700m
Memorial Garden	£0.250m
Dogs facility	£1.500m

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

i. Building Improvement & Sustainability spend of £0.700m in 2024/25 including investment towards meeting the government mandate to reduce direct emissions by 50% (compared to a 2017 baseline) by 2032.
ii. Development of a Blue Light Hub at Cheshunt in 2024/25 to 2026/27 at a cost of £6.1m, subject to review by the new PCC.
iii. Funding totally £2.696m 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. £2.578m will be required for the purchase of replacement vehicles in 2024/25.
v. Subject to agreement of a full business case it is anticipated investment on the CCTV with Custody Suites totalling £0.555m will be required in 2024/25.

The above draft capital programme will be funded as follows:

Table 18.

Financing	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**	**2029/30 £m**	**2030/31 £m**	**2031/32 £m**	**2032/33 £m**	**2033/34 £m**	**Total £m**
Capital Receipts	6.491	6.068	7.698	-	2.500	6.000	-	-	-	-	28.757
Borrowing	18.432	38.487	11.157	14.060	10.629	1.552	6.611	6.671	6.732	6.795	121.126
Total Financing	**24.923**	**44.555**	**18.855**	**14.060**	**13.129**	**7.552**	**6.611**	**6.671**	**6.732**	**6.795**	**149.883**

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 19.

CFR	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**	**2029/30 £m**	**2030/31 £m**	**2031/32 £m**	**2032/33 £m**	**2033/34 £m**
Opening Balance	-66.497	-81.433	-116.213	-123.557	-133.282	-138.712	-134.331	-135.847	-135.729	-136.909
New CFR	-18.432	-38.487	-11.157	-14.060	-10.629	-1.552	-6.611	-6.671	-6.732	-6.795
MRP reduces CFR	3.496	3.707	3.813	4.334	5.199	5.933	5.095	6.789	5.552	5.811
Closing Balance	**-81.433**	**-116.213**	**-123.557**	**-133.283**	**-138.712**	**-134.331**	**-135.847**	**-135.729**	**-136.909**	**-137.893**

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

Table 20.

Borrowing	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**	**2029/30 £m**	**2030/31 £m**	**2031/32 £m**	**2032/33 £m**	**2033/34 £m**
Opening Balance	48.700	51.700	92.700	105.700	115.700	120.700	117.500	117.500	117.500	118.500
New Debt	3.000	41.000	13.000	10.000	5.000	20.000	-	-	1.000	1.000
Repaid Debt	-	-	-	-	-	-23.200	-	-	-	-
Closing Balance	**51.700**	**92.700**	**105.700**	**115.700**	**120.700**	**117.500**	**117.500**	**117.500**	**118.500**	**119.500**

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 21.

Capital Financing	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**	**2029/30 £m**	**2030/31 £m**	**2031/32 £m**	**2032/33 £m**	**2033/34 £m**
MRP	3.496	3.707	3.813	4.334	5.199	5.933	5.095	6.789	5.552	5.811
Interest Paid	1.183	1.381	2.364	4.640	4.977	5.315	5.303	4.593	4.593	4.593
Return on Investments	-0.100	-0.100	-0.100	-0.100	-0.100	-0.100	-0.100	-0.100	-0.100	-0.100
Total	**4.579**	**4.988**	**6.077**	**8.874**	**10.076**	**11.148**	**10.298**	**11.282**	**10.045**	**10.304**
% of NRE	1.8%	1.9%	2.2%	3.2%	3.6%	3.9%	3.5%	3.8%	3.3%	3.4%

A flat rate assumption of £100k p.a. return on investment has been included above in anticipation of liquidating the current £2.5m held in the CCLA. The above levels of Minimum Revenue Provision (MRP) are based upon the annuity method whereby MRP is calculated to reflecting the reducing value of money over time by discounting at a suitable rate. The annuity method essentially keeps MRP flat in real terms (but increasing in cash terms) over the life of the asset whereas the straight-line method keeps MRP flat in cash terms (but decreasing in real terms).

Appendix A - Revenue Budget Detail[14]

The 2024/25 gross to net budget and its prior year comparator are shown below:

Table 22.

Gross to Net Budget	2023/24 £m	2024/25 £m
Gross Budget	**272.9**	**294.2**
Fees & Charges	(7.7)	(7.7)
Other Grants	(10.5)	(18.2)
Local Authority PCSO funding	(0.7)	(0.7)
Reserves	(0.5)	(0.5)
Net Budget	**253.5**	**267.0**

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

Table 23.

Portfolio	Gross Budget 2023/24 £m	Gross Budget 2024/25 £m	Change £m	Change %
Operational Delivery	133.8	148.2	14.4	10.7%
Strategy & Prevention	37.0	37.3	0.3	0.9%
Deputy Chief Constable Budgets	4.0	4.3	0.3	7.5%
Resources	15.9	17.4	1.6	10.0%
Corporate Budgets	11.2	13.8	2.6	23.3%
Collaborated BCH	55.8	58.1	2.3	4.0%
Collaborated Regional	6.3	6.8	0.5	7.9%
Collaborated National	1.2	1.2	-	0.0%
PCC	7.7	7.1	-0.7	-8.6%
Total	**272.9**	**294.2**	**21.3**	**7.8%**

14 There may be arithmetic differences due to rounding

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

Table 24.

Expenditure type	2023/24 £m	2024/25 £m	Change £m	Change %
Police Officer Pay	135.8	152.7	16.90	12.4%
Police Officer Overtime	4.3	4.2	-0.10	-1.2%
Police Staff Pay	79.8	82.7	2.90	3.6%
Police Staff Overtime	0.8	0.8	-	0.0%
Employee Related Expenditure	2.8	2.9	0.10	3.2%
Premises Cost	9.0	10.8	1.80	19.8%
Transport Costs	3.6	3.6	-	1.0%
Supplies And Services	33.7	31.8	-1.90	-5.6%
Capital Financing	3.1	4.6	1.50	49.9%
Fees And Charges	-7.7	-7.7	-	1.1%
Specific Grants	-10.5	-18.2	-7.70	73.3%
Partner Contributions	-0.7	-0.7	-	-1.7%
Net Use of Reserves	-0.5	-0.5	-	0.0%
Total Net Budget	**253.5**	**267.0**	**13.5**	**5.3%**

Further detail, by department, is presented overleaf:

Table 25.

	Gross Budget 2023/24	Standstill Spend Pressures	Technical Adjustments	Savings	DRAFT Gross Budget 2024/25	Movement	Movement
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
Protective Services - Beds lead							
Armed Policing Unit (BCH)	**4.4**	0.5	-	-0.0	**4.9**	0.5	10.1%
Protective Crime Command (BCH)	**0.6**	0.1	-	-0.0	**0.7**	0.4	60.3%
Dog Unit (BCH)	**1.4**	0.1	-	-0.0	**1.5**	0.1	7.9%
Major Crime Unit (BCH)	**3.9**	0.4	-	-0.1	**4.2**	0.3	7.0%
Operational Support Units (BCH)	**0.5**	0.1	-	-0.0	**0.6**	0.0	8.5%
Civil Contingency Units (BCH)	**0.2**	0.0	-	-0.0	**0.2**	0.0	0.5%
Roads Policing Units (BCH)	**5.7**	0.6	-	-0.1	**6.2**	0.5	8.4%
Scientific Services Unit (BCH)	**5.5**	0.4	-	-0.3	**5.6**	0.1	1.6%
Sub-total Protective Services	**22.3**	**2.1**	**-**	**-0.6**	**23.8**	**1.8**	**8.2%**

	Gross Budget 2023/24	Standstill Spend Pressures	Technical Adjustments	Savings	DRAFT Gross Budget 2024/25	Movement	Movement
	£m	£m	£m	£m	£m	£m	%
Operational Support - Herts lead							
Collaborated Criminal Justice	**1.6**	0.1	-0.1	-0.1	**1.6**	-0.0	-2.2%
Camera Tickets & Collisions	**2.5**	0.2	-	-0.2	**2.5**	-0.0	-0.2%
Firearms Licensing	**0.4**	0.0	-	-0.0	**0.4**	0.0	5.7%
ICT	**13.3**	0.6	-	-0.3	**13.6**	0.3	2.4%
Delivery Management Office	**0.8**	0.1	0.0	-0.0	**0.8**	0.0	4.5%
Sub-total Operational Support	**18.6**	**1.0**	**-0.1**	**-0.5**	**19.0**	**0.3**	**1.8%**
Organisational Support - Cambs lead							
Human Resources	**9.3**	0.7	-	-0.4	**9.5**	0.3	3.0%
Information Management Dept	**2.5**	0.2	-	-0.2	**2.6**	0.0	0.4%
Professional Standards Unit	**2.5**	0.2	-	-0.0	**2.8**	0.2	9.0%
Uniform Stores	**0.2**	0.0	-	-0.0	**0.2**	0.0	0.6%
Corporate Communications	**0.1**	0.0	-	-0.1	**-**	-0.1	-100.0%
Payroll	**0.3**	0.0	-	-0.0	**0.3**	0.0	0.7%
Police Uplift Programme Board	**0.1**	0.0	-	-0.0	**0.1**	0.0	9.4%
Sub-total Organisational Support	**15.0**	**1.2**	**-**	**-0.8**	**15.4**	**0.4**	**2.9%**
Total BCH	**55.8**	**4.3**	**-0.1**	**-1.9**	**58.1**	**2.6**	**4.6%**

	Gross Budget 2023/24	Standstill Spend Pressures	Technical Adjustments	Savings	DRAFT Gross Budget 2024/25	Movement	Movement
	£m	£m	£m	£m	£m	£m	%
Operational Delivery							
Crime	**26.3**	2.6	-0.0	-0.2	**28.8**	2.5	9.4%
Local Policing Command	**98.3**	11.0	0.2	-1.0	**108.7**	10.3	10.5%
Police Uplift Programme	**9.2**	1.1	0.5	-0.0	**10.7**	1.6	17.0%
Sub-total Operational Delivery	**133.8**	**14.8**	**0.7**	**-1.1**	**148.2**	**14.4**	**10.7%**
Strategy & Prevention							
Collaboration Custody & Criminal Justice	**1.6**	0.1	-	-0.0	**1.7**	0.0	2.7%
Crime Reduction & Community Safety	**0.2**	0.0	-0.2	-0.0	**0.0**	-0.2	-85.1%
Force Communications Room	**17.5**	1.5	-0.1	-1.4	**17.5**	-0.0	-0.1%
Operations	**2.9**	0.2	0.1	-0.0	**3.3**	0.4	12.3%
Organisational Strategy, Performance & Analysis	**2.3**	0.2	0.0	-0.0	**2.5**	0.2	7.9%
Prevention First Command	**4.1**	0.5	-0.1	-1.3	**3.3**	-0.8	-20.5%
Transformation	**1.1**	0.1	0.0	-0.0	**1.2**	0.1	8.9%
Operational Strategy	**1.1**	0.1	-0.0	-0.0	**1.2**	0.1	8.6%
Custody	**6.0**	0.5	0.1	-0.0	**6.6**	0.6	10.2%
Sub-total Strategy & Prevention	**37.0**	**3.2**	**-0.1**	**-2.8**	**37.3**	**0.3**	**0.9%**

	Gross Budget 2023/24	Standstill Spend Pressures	Technical Adjustments	Savings	DRAFT Gross Budget 2024/25	Movement	Movement
	£m	£m	£m	£m	£m	£m	%
Deputy Chief Constable							
Corporate Communications	**1.2**	0.1	-	-0.0	**1.3**	0.1	6.1%
Insurance	**1.5**	0.2	-	-0.0	**1.6**	0.2	12.6%
Legal Services	**1.0**	0.0	-	-0.0	**1.0**	0.0	3.2%
Design & Print Service	**0.4**	0.0	-	-0.0	**0.4**	0.0	3.3%
Sub-total Deputy Chief Constable	**4.0**	**0.4**	**-**	**-0.1**	**4.3**	**0.3**	**7.5%**
Resources							
Estates And Facilities	**10.4**	1.4	-	-0.2	**11.5**	1.1	10.8%
People & Workforce Develop	**4.0**	0.4	0.0	-0.0	**4.3**	0.4	9.6%
Finance	**1.5**	0.1	-	-0.0	**1.6**	0.1	5.8%
Sub-total Resources	**15.9**	**1.9**	**0.0**	**-0.3**	**17.4**	**1.6**	**10.0%**

	Gross Budget 2023/24	Standstill Spend Pressures	Technical Adjustments	Savings	DRAFT Gross Budget 2024/25	Movement	Movement
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
Corporate budgets							
Capital Financing	**3.1**	1.5	-	-	**4.6**	1.5	49.9%
Force Account	**6.5**	1.6	-0.6	-0.2	**7.2**	0.7	11.0%
Major Incidents	**0.1**	0.0	-	-0.0	**0.1**	-	0.0%
Pensions & Redundancies	**1.1**	0.0	-	-0.0	**1.1**	0.0	0.1%
Secondments	**0.5**	0.0	-	-0.0	**0.6**	0.0	6.3%
Staff Associations	**0.5**	0.0	-	-0.0	**0.5**	0.0	10.2%
Uniforms	**0.7**	0.0	0.3	-0.0	**1.0**	0.3	39.0%
Fleet	**-1.3**	-0.0	-	0.0	**-1.3**	0.0	-0.2%
Sub-total Corporate	**11.2**	**3.2**	**-0.3**	**-0.3**	**13.8**	**2.6**	**23.3%**
Total Herts Only	**201.9**	**23.5**	**0.3**	**-4.6**	**221.1**	**19.2**	**9.5%**
E R S O U (Regional)	**5.9**	0.5	-	-0.0	**6.4**	0.5	8.4%
7F Commercial Services	**0.4**	0.0	-	-0.0	**0.4**	-	0.0%
Air Support Unit (NPAS)	**1.2**	0.0	-	-0.0	**1.2**	-	0.0%
Sub-total Regional & National Collaboration	**7.5**	**0.6**	**-**	**-0.1**	**8.0**	**0.5**	**6.7%**
Total Constabulary	**265.2**	**28.3**	**0.2**	**-6.6**	**287.1**	**22.3**	**8.4%**
Police & Crime Commissioner							
PCC Commissioning Budget	**5.4**	0.2	-0.1	-0.9	**4.6**	-0.8	-14.7%
Office Of The PCC	**2.4**	0.2	-	-0.0	**2.5**	0.1	5.4%
Sub-total PCC	**7.7**	**0.4**	**-0.1**	**-0.9**	**7.1**	**-0.7**	**-8.6%**
Total Hertfordshire	**272.9**	**28.7**	**0.0**	**-7.5**	**294.2**	**21.6**	**7.9%**

Appendix B - Precept Summary

Table 26.

	£'000
Budget Requirement	267,274
Less Government Funding	(150,073)
To be met from council tax (incl. collection fund)	**117,201**

To be collected from the 10 Billing Authorities as follows:

Billing Authority	2024/25 Tax Base	Precept Amount @ £251	Draft Surplus/ (Deficit) on Collection Fund	Total Payments Due
	No.	£	£	£
Broxbourne Borough Council	36,432.70	9,144,607.70	3.00	9,144,610.70
Dacorum Borough Council	60,276.50	15,129,401.50	75,854.82	15,205,256.32
East Herts District Council	64,809.90	16,267,284.90	0.00*	16,267,284.90
Hertsmere Borough Council	43,178.60	10,837,828.60	(87,986.00)	10,749,842.60
North Herts District Council	50,565.60	12,691,965.60	(19,991.00)	12,671,974.60
St Albans District Council	64,015.00	16,067,765.00	33,401.00	16,101,166.00
Stevenage Borough Council	28,579.40	7,173,429.40	162,150.68	7,335,580.08
Three Rivers District Council	39,850.80	10,002,550.80	(79,241.19)	9,923,309.61
Watford Borough Council	35,352.10	8,873,377.10	(80,721.42)	8,792,655.68
Welwyn Hatfield District Council	43,875.20	11,012,675.20	(291,111.34)	10,721,563.86
TOTAL	**466,935.80**	**117,200,885.80**	**(287,641.45)**	**116,913,244.35**

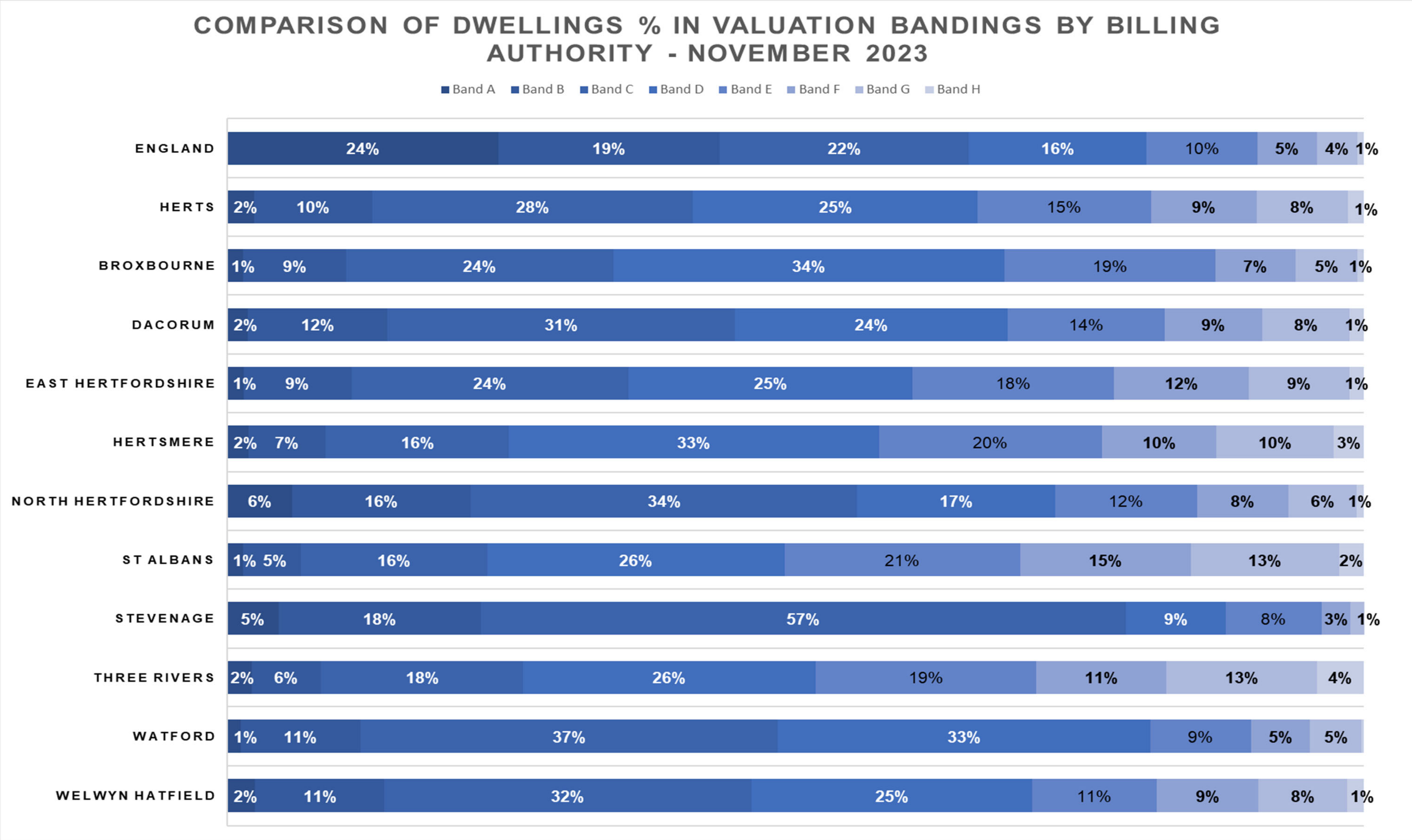
*Still awaiting figure from East Herts

Based on the following valuation bandings:

Table 27.

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
2023/24 Charge £	158.67	185.11	211.56	**238.00**	290.89	343.78	396.67	476.00
2024/25 Charge £	167.33	195.22	223.11	**251.00**	306.78	362.56	418.33	502.00
Precept increase £ per annum	8.66	10.11	11.55	**13.00**	15.89	18.78	21.66	26.00
Precept increase £ per month	0.72	0.84	0.96	**1.08**	1.32	1.56	1.81	2.17
Precept increase £ per week	0.17	0.19	0.22	**0.25**	0.31	0.36	0.42	0.50
Precept increase £ per day	0.02	0.03	0.03	**0.04**	0.04	0.05	0.06	0.07

Graph 5.


COMPARISON OF DWELLINGS % IN VALUATION BANDINGS BY BILLING AUTHORITY - NOVEMBER 2023
Band A
Band B
Band C
Band D
Band E
Band F
Band G
Band H
ENGLAND 24% 19% 22% 16% 10% 5% 4% 1%
HERTS 2% 10% 28% 25% 15% 9% 8% 1%
BROXBOURNE 1% 9% 24% 34% 19% 7% 5% 1%
DACORUM 2% 12% 31% 24% 14% 9% 8% 1%
EAST HERTFORDSHIRE 1% 9% 24% 25% 18% 12% 9% 1%
HERTSMERE 2% 7% 16% 33% 20% 10% 10% 3%
NORTH HERTFORDSHIRE 6% 16% 34% 17% 12% 8% 6% 1%
ST ALBANS 1% 5% 16% 26% 21% 15% 13% 2%
STEVENAGE 5% 18% 57% 9% 8% 3% 1%
THREE RIVERS 2% 6% 18% 26% 19% 11% 13% 4%
WATFORD 1% 11% 37% 33% 9% 5% 5%
WELWYN HATFIELD 2% 11% 32% 25% 11% 9% 8% 1%

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 2024/25, 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, and risk mitigation plans.

ROBUSTNESS OF ESTIMATES

Introduction

This report fulfils the requirements of Section 25 of the Local Government Act 2003, providing a comprehensive assessment of the robustness of estimates included in the 2024/25 budget. It examines key revenue and expenditure projections, highlighting potential uncertainties and the mitigating measures implemented to maintain fiscal prudence. While the estimates are formulated with careful consideration, several key risks deserve close attention and proactive management.

Revenue Estimates:

Government Grants: At 56%, government grants are the organisation's main income source, making dependence on central funding a significant risk. Policy changes or economic downturns could lead to reduced allocations. Furthermore, the shift towards sizeable, ring-fenced grants, such as the Police Uplift Programme maintenance grant, with "cliff-edge" financial consequences, which limits local discretion and agile resource management. There are limited opportunities for exploring alternative income streams, crucial for building resilience, beyond active government lobbying.

Council Tax: This revenue source accounts for nearly 44% of the organisation’s income and while current projections factor in dwelling numbers and precept flexibilities, uncertainties remain regarding collection rates and potential policy changes like council tax freezes. Fluctuations in actual versus estimated collection rates can severely impact finances, as evidenced by the projected £0.987 million negative swing in 2024/25. To cope with these fluctuations, the organisation could set aside a specific reserve, but currently it does not have enough unallocated reserves to do so.

Other Income: This category primarily relies on income from road traffic offence training and partner contributions for local PCSOs 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.

However, this self-limiting revenue model, creates a paradoxical "Catch-22" situation i.e., 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 stopped funding PCSOs and this reliance poses a potential withdrawal risk i.e., as partner finances tighten, contributions might dwindle, further straining the organisation's budget. The organisation could reduce its dependence on these income streams by base-lining the 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 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.

Key Expenditure Risks and Mitigating Measures

Pay and Price Inflation: Assumptions may underestimate actual increases, leading to budget pressures. Benchmarking of other forces shows that they are broadly assuming 2.5%, but Hertfordshire considers this excessive given the recent trajectory of inflation and so has opted for a 2% increase. However, this does come with a level of risk as exceeding the budgeted 2% pay increase could necessitate service cuts, with a 2.5% pay award equating to an additional £1.1m cost per annum. Given the nature of the pay award i.e., set nationally, primarily because of recommendations from the Police Remuneration Review Body (PRRB), removes any local discretion. Once again, the lobbying of government and the provision of strong evidence to the PRRB, through the APCC, NPCC and unions, for consideration, is vital, alongside the government’s clear steer on affordability.

Demand-Driven Services: Fluctuations in emergency services calls, and other demand-driven services can exceed projections. Flexible service models, proactive demand management strategies, and effective workforce planning are crucial to mitigate cost overruns.

Capital Investments: Delays in project delivery, cost overruns, or changes in funding availability can pose challenges. Strong project/programme management, strategic decisions to cease or re-phase projects and robust procurement practices can help manage these risks.

Uncertainty surrounding insurance reserves and potential claims: Inadequate reserves or unexpected claims could significantly impact the budget. The latest actuarial valuation[15] of the organisation's requirement for a reserve for self-insured claims[16] was £5.0m, whereas the reserve currently stands at £1.7m. There is currently insufficient headroom within either the revenue budget or reserves to be able to increase this level. Regular risk assessments and maintaining prudent reserve allocations are necessary.

Recognition of potential loss on the property fund: Removal of the temporary statutory override[17] after 31 March 2025, would crystallise any unrealised losses within the fund, currently circa. £0.260m. Exploring disposal options, and ideally the creation of a either provision or contingent liability would be advantageous.

Changes in government policy: A change in government could lead to altered funding formulas, grants reductions, or new policy mandates. Active engagement with policymakers, and maintaining operational flexibility are key to adapting to such changes.

Cost of demand-led overtime: Unforeseen events or spikes in service demand could necessitate significant overtime costs. Effective workforce scheduling and exploring alternative service models can help manage this risk.

Interest rates and inflation not reducing as expected: Continued higher than anticipated inflation or rising interest rates could significantly impact expenditure, particularly those financed by external borrowing. Exploring fixed rate financing options and optimising the timing of loans are crucial in such scenarios, especially in

[15] Gallagher report – as at 31 March 2023

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

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

a time of significant capital investment, totalling £150m over the next 10 years.

Fallout from the introduction of a new funding formula: Implementation of a new funding formula could disadvantage Hertfordshire, leading to reduced allocations. Lobbying for fair resource allocation, challenging the methodology during any consultation period, preparing alternative budget scenarios, and demonstrating efficient service delivery are crucial to mitigate this risk.

Further increases in employer contributions to police officer pension scheme: Unexpected rises in pension contributions, like the 4.2% increase in 2024/25, could put significant pressure on the budget. However, to date the government has provide a significant level of support to dampen the impact, but assuming government will 'fully fund' such increases going forward poses a risk and therefore proactive lobbying of government is essential.

Financial impact of not maintaining the government police uplift target: Failure to uphold the police uplift target could lead to significant financial consequences. Effective communication with the government, exploring alternative recruitment strategies, and maximising efficiency gains through the work of both the Herts' Force Review Team and the Beds, Cambs and Herts Joint Strategy & Transformation team are crucial to navigate this risk.

Potential for another comprehensive spending review (CSR): A CSR could lead to further budget cuts or policy changes. Maintaining strong financial performance, demonstrating service effectiveness, and engaging with stakeholder groups are crucial to minimise negative impacts.

Non-achievement of savings target: Achieving the ambitious £7.5 million savings target for 2024/25 faces several delivery risks outlined in Section 8. Some key concerns include:

- Overtime Efficiency (£0.207m): This saving depends on demand, linked to the number of vacancies, particularly in the Force Control Room and Local Policing Command. High vacancy rates could make achieving this target difficult.

- Collaborated Units (£1.3m): The plan lacks specifics on where these savings will come from, raising concerns about its feasibility.
- Reducing Officers Exceeding Uplift Target (£1.27m): This saving carries the risk of losing significant grant funding if officer turnover exceeds expectations.
- Non-Pay Budget Freeze (£1.28m): External factors like contractual obligations, ongoing conflicts, and energy price fluctuations could impact supplier costs and jeopardise this saving.

Combined, these high-risk savings total over £4 million and a 50% failure rate would exhaust the organisation's estimated remaining usable reserves of approximately £2m. Moreover, further work is needed to identify the extra £11.9m of savings required from the force review and BCH units over the medium-term.
To guarantee the organisation stays within its budget and maintains its financial resilience in the short and medium term, timely communication from budget owners is crucial. They must promptly report any deviations, either underachieving savings targets or exceeding expenditures which will enable the Strategic Executive Board (SEB) to swiftly implement necessary financial recovery plans. Addressing this need is key to preventing further depletion of reserves. The recent budget holder training at the University of Hertfordshire plays a valuable role in equipping our team with the skills to effectively manage their budgets and communicate any potential issues early on.

Conclusion:

As outlined above the organisation faces a challenging financial situation, like many public sector bodies, due to the macro-economic and geopolitical risks, similar to many public sector bodies, due to macroeconomic and geopolitical risks. Although there is a projected overspend in the current year, we do not expect this to recur. This is because the major pressures have been addressed by incorporating them into the standstill costs for the upcoming year. Nevertheless, the budget estimates for 2024/25 have been prepared with due diligence and a keen awareness of potential risks. Although future uncertainties persist, we have identified mitigating measures that, coupled with sound financial management practices, will help the organisation to navigate these challenges and maintain fiscal responsibility. In short, the Chief Finance Officer believes that the budget is a result of careful deliberation, taking into account the current economic climate, historical trends, and foreseeable risks. It is a combines of rational assumptions, strategic contingency plans, and proactive financial stewardship, all aimed at ensuring resilience throughout the fiscal year and beyond. Consequently, the PCC's CFO can confirm that all requisite statutory assurances have been duly met at this time.

RESERVES STRATEGY

Introduction

The Local Government Finance Act 1992 mandates both billing and precepting authorities in England & Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. This strategy proposes a comprehensive approach to reserve management to ensure financial resilience for effective policing within the county.

Vision

To ensure Hertfordshire Police has 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 landscape of dynamic crime trends and uncertain funding, Hertfordshire Police requires a robust reserves strategy to navigate unforeseen challenges. Moreover, in light of the recent cases of local authorities going bankrupt and issuing Section 114 notices, with more likely to follow, the importance of a solid financial foundation for police forces is evident. Hence, keeping a minimum level of general reserves is essential as a contingency fund for unforeseen challenges, ensuring operational stability and the ability to respond effectively to emergencies.

Current Reserve Levels and Usage

As of 31 March 2023, Hertfordshire held £24.3m in total reserves, divided into two categories: general reserves (£12.6m) and earmarked reserves (£11.7m). General reserves offer vital flexibility for unplanned expenditures, while earmarked reserves are dedicated to specific projects or initiatives. In the fiscal year 2023/24, Hertfordshire Police is expected to utilise £6.2m from reserves, primarily to address the projected £5.6m overspend on the revenue budget, which will reduce the budget support reserve to £2m (0.7% of the budget).

The table below details the levels of anticipated reserves held by the Commissioner as of April 2024 and their projected use in 2024/25.

Table 1.

	Balance	2023/24 Transfers		Balance	2024/25 Transfers		Balance
	As at 31/3/23	Out	In	As at 31/3/24	Out	In	As at 31/3/25
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Base Budget Support reserve	**6,976**	-5,600	674	**2,050**	0	0	**2,050**
Road Safety Fund	**1,723**	-300	0	**1,423**	-350	0	**1,073**
Unconditional Funding reserve	**349**	-349	0	**0**	0	0	**0**
Sexual Assault Referral	**674**	-674	0	**0**	0	0	**0**
Emergency Service Network reserve	**244**	0	0	**244**	0	0	**244**
Self-insurance reserve	**1,713**	0	0	**1,713**	0	0	**1,713**
Total Specific Reserves	**11,679**	**-6,923**	**674**	**5,430**	**-350**	**0**	**5,080**
Police Fund/General Reserve	**12,600**	0	0	**12,600**	0	0	**12,600**
Total Reserves	**24,279**	**-6,923**	**674**	**18,030**	**-350**	**0**	**17,680**

Benchmarking

While direct comparisons beyond the policing sector are challenging, it's worth noting that Hertfordshire's reserves-to-revenue ratio (as at 31 March 2023[18]) is considerably lower than both its peers and the broader local and English local authority sector.

Table 2.

Organisation(s)	**Total reserves to Net Current Expenditure**
Herts PCC	9.2%
English Police average	13.7%
All English Local Authorities average	47.3%
Herts Districts & County Council average	54.2%

[18] Source: Local authority revenue expenditure and financing England: 2022 to 2023 individual local authority data - outturn - GOV.UK (www.gov.uk)

General Reserve

The General Reserve (or Police Fund) is a statutory contingency reserve to fund unplanned and emergency expenditure, for example to meet exceptional or extraordinary policing operations and major issues.

In setting the 2024/25 budget the PCC's level of general reserves has been held at £12.6m (or 4.3%[19] of the £293m gross budget), which is below the 5% level the CFO views as appropriate and prudent, however currently there are insufficient funds, either in other reserves or within the revenue budget, to enable the organisation to increase this amount by £2m to circa. £14.6m (≈5%). However, this level will provide significant resilience against unexpected financial headwinds while remaining realistic within existing budget constraints.

Earmarked reserves

The table above shows the funds that are expected to be available in 2024/25. These funds are:

Budget Support Reserve - This reserve is held to ensure sound financial management and resilience. It helps the organisation manage the financial risks associated with day-to-day revenue expenditure and enables a response to unexpected events or emerging needs. No utilisation is planned for 2024/25.

Road Safety Fund – This ring-fenced fund holds the balance of income from the National Driver Offender Retraining Scheme (NDORS), exceeding the Camera Tickets and Collisions Unit's running costs. £0.350m is earmarked for reinvestment in road safety activities in 2024/25.

Emergency Services Network (ESN) reserve – This reserve was initially funded by the government for the Emergency Service Network's implementation. However, its ring-fencing and integration into the Budget Support Reserve are being reviewed due to the national program's ongoing deferral. No use is expected in 2024/25.

Self-insurance claims reserve – This reserve covers potential claims for Employer's Liability, Public Liability, Motor (3rd party liability), and Property. Its level is based on

[19] This reserve level remains below the 5% level required to be provided to the Home Office.

an actuary's central estimate of payments and usage occurs when claims materialise, often years later. There is no planned use of this reserve in 2024/25.

Capital reserves - the Commissioner currently holds no capital reserves from asset sales.

Implementation and Considerations

While acknowledging the current financial pressures facing police forces across the nation, Hertfordshire recognises the paramount importance of maintaining adequate 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 £22.5m of planned capital receipts over the medium-term.
3. The treatment of demand led pressures	The Constabulary has identified the need for £16.3m of cashable savings which will be removed from the budget over the next four years (2024/25 to 2027/28). 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. £2m remaining. 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 Constabulary has previously achieved its annual efficiency/savings target, however in 2023/24 the Government's grant funding

	mechanism for the Police Uplift Programme meant that the some of the savings are not going to be delivered, and this led in part to the significant projected overspend of £5.6m. The medium-term plan anticipates a funding gap of circa. £16.3m from 2024/25 until the end of 2027/28 if there are modest 2% council tax increases in each year. All savings are assessed in terms of deliverability.
5. The financial risks inherent in any significant new funding partnerships, collaboration, major outsourcing arrangements, or major capital developments	The financial consequences of working collaboratively, outsourcing arrangements and capital investment are incorporated as part of the medium-term planning process. Where relevant and quantifiable, any additional costs are incorporated in the annual revenue budget and/or capital programme. 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. We've embarked on a circa £70m headquarters redevelopment, our largest capital project in recent years. The total capital program, including the HQ project, is

	expected to reach £150m 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 could still impact revenue.
6. The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions	The availability of reserves is expected to reduce by 25% by the end of 2023/24 to £18m, this includes several earmarked revenue reserves set aside to meet specific expenditure items. For example, Hertfordshire maintains an insurance provision; the adequacy of which is determined annually by a firm of qualified insurance actuaries. The access criteria for 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 £2.7m. As part of the external auditors VFM assessment, the organisation stress-tests its balance sheet i.e., reserves, by varying several key parameters, to demonstrate to the organisations' ability to continue as a going concern.

7. The general financial climate to which the authority is subject.	The political uncertainty around government policy arising from a possible general election in 2024 and the consequential economic outlook, will be major influences on the organisation's ability to plan with any certainty. The UK economy is facing a challenging outlook, with weak growth due to continuing uncertainty and higher cost of trade caused by Brexit, the deceleration in global demand and the supply chain disruptions, the high energy prices and the wage pressures, and the delayed impact of the interest rate hikes by the Bank of England. The economy is also facing significant supply-side constraints, such as a large increase in long-term sickness, changing immigration patterns and low productivity. The inflation outlook is also uncertain, as the headline CPI inflation is expected to remain above the Bank of England's 2% target during 2024, due to the persistent factors driving up prices and impacting on the public finances, which will see higher debt servicing costs. The monetary policy outlook is uncertain, as the Bank of England faces a trade-off between supporting growth and containing inflation. The Bank of England may also start lowering the bank rate in 2024, depending on the evolution of the economy and inflation. The unemployment rate is expected to rise from 4.7% in 2023 and 4.9% in 2024, as the labour

	market weakens due to the lower demand and the structural changes caused by Brexit. The average earnings growth is expected to slow down, reflecting the impact of inflation and the weaker labour market. The average earnings growth is expected to pick up to 3.4% by 2028, as inflation moderates and productivity improves. The Home Office review of the Police Funding Formula Review (PFFR) is still ongoing, and the impact of Hertfordshire is unknown, and the timing of the outcome is yet to be confirmed. Further afield, the ongoing war in Ukraine and the any escalations in the tensions between China and Taiwan, following the recent elections, are likely to lead to supply-side inflationary pressures.

TREASURY MANAGEMENT STRATEGY 2024/25

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 2024/25 and the remainder of 2023/24 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 higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the PCC's treasury management strategy for 2024/25.

4.3. The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. The November 2023 quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

4.4. Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from 4.6% the previous month, and in line with the recent trend, lower than expected. The core CPI inflation declined to 5.1% from 5.7%, again lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target and then falling below target during the second half of 2025 and into 2026.

Credit outlook

4.5. Credit default swap (CDS) are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. CDS prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Quarter 2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

4.6. On an annual basis, CDS price volatility was lower in 2023 compared to 2022, but 2023 saw more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

4.7. Moody’s revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 minibudget. Moody’s also affirmed the Aa3 rating in recognition of the UK’s economic resilience and strong institutional framework.

4.8. Following its rating action on the UK sovereign, Moody’s revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

4.9. There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

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

Interest rate forecast (December 2023)

4.11. Although UK inflation and wage growth remain elevated, Arlingclose forecasts that Bank Rate has peaked at 5.25%. The BoE's Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Quarter 3 2024 to a low of around 3% by early to mid-2026.

4.12. Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

4.13. 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 2023, the PCC held £42.5m of borrowing and £5.5m 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. £23.2m of additional Public Works Loan Board (PWLB) borrowing was arranged on 27 December 2023 with a loan start date of 4 January 2024; further information is provided at Section 6 of this report.

Table 1: Balance sheet summary and forecast

	31/03/23 Actual £m	31/03/24 Estimate £m	31/03/25 Forecast £m	31/03/26 Forecast £m	31/03/27 Forecast £m
Total CFR	**48.9**	**69.4**	**83.9**	**118.2**	**125.3**
Less: other debt liabilities – Leases*	(2.6)	(2.9)	(2.5)	(2.0)	(1.7)
Loans CFR	**46.3**	**66.5**	**81.4**	**116.2**	**123.6**
Less: External borrowing**					
- Public Works Loan Board	(15.5)	(38.7)	(38.7)	(38.7)	(38.7)
- Other Loans (incl. LOBOs)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
- Short term borrowing	(8.0)	(10.0)	-	-	-
Total borrowing	**(33.5)**	**(58.7)**	**(48.7)**	**(48.7)**	**(48.7)**
Internal borrowing	**12.8**	**7.8**	**32.7**	**67.5**	**74.9**
Less: Balance sheet resources	**(24.3)**	**(18.0)**	**(17.7)**	**(17.3)**	**(17.0)**
New borrowing or (Treasury investments)	**(11.5)**	**(10.2)**	**15.0**	**50.2**	**57.9**

* 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 2023 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 during 2024/25.

Liability benchmark

5.5. To compare the PCC's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1, but that cash and investment balances are kept to a minimum level of £20m at each year-end to maintain sufficient liquidity but minimise credit risk.

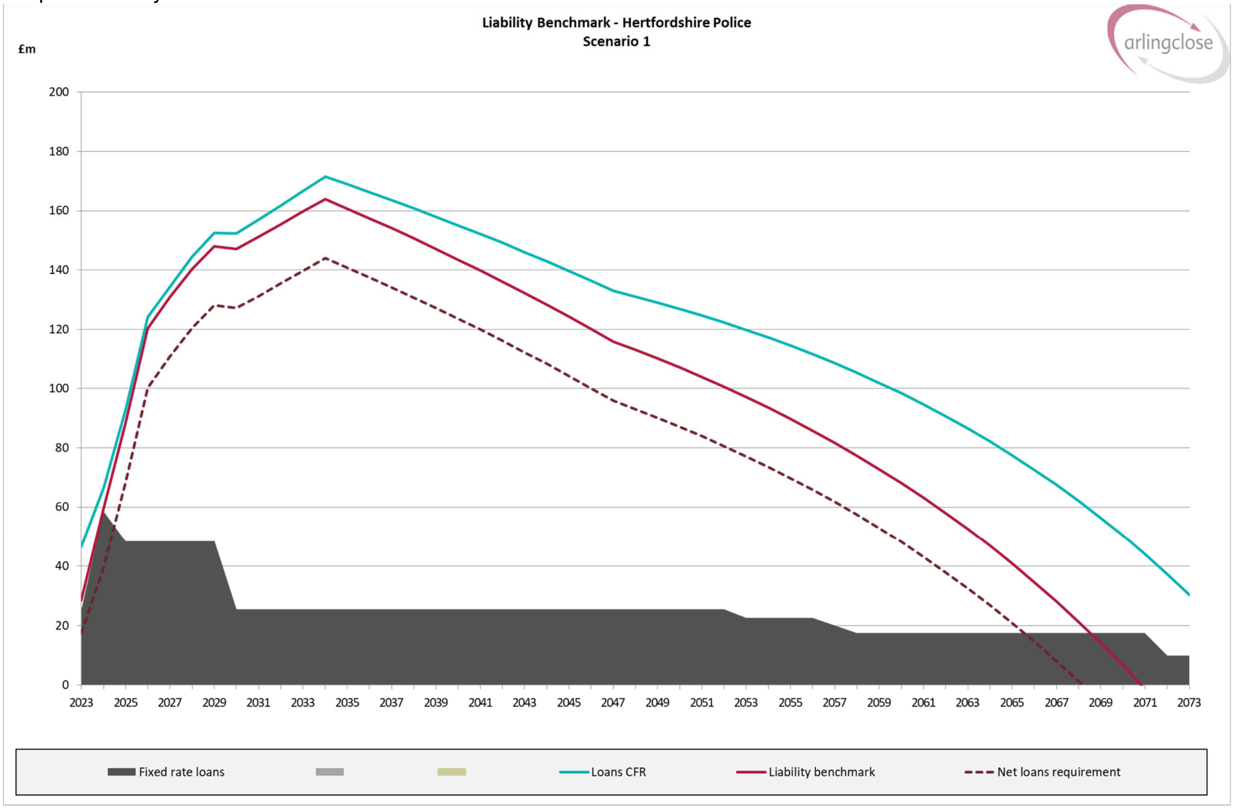
5.6. The liability benchmark is an important tool to help establish whether the PCC is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external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

Table 2: Liability benchmark

	31/03/23 Actual £m	**31/03/24 Estimate £m**	**31/03/25 Forecast £m**	**31/03/26 Forecast £m**	**31/03/27 Forecast £m**
Loans CFR	46.3	66.5	81.4	116.2	123.6
Less: Balance sheet resources	-24.3	-18.0	-17.7	-17.3	-17.0
Net loans requirement	**22.0**	**48.5**	**63.7**	**98.9**	**106.6**
Plus: Liquidity allowance	11.0	20.0	20.0	20.0	20.0
Liability benchmark	**33.0**	**68.5**	**83.7**	**118.9**	**126.6**

5.7. At the start of the period, 31 March 2023, the PCC had a Loans CFR of £46.3m, external borrowing of £33.5m, balance sheet resources of £24.3m and a liability benchmark of £33.0m. The difference of £12.8m between the CFR and external borrowing is internal borrowing which is where the PCC has used its own resources to fund its borrowing requirement.

Graph 1: Liability Benchmark



5.8. The liability benchmark is the lowest level of debt the PCC could hold if it used all of its balances, reserves, and cash flow surpluses to fund its CFR. The 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 2033/34, which is a very unlikely scenario but a reflection of the current horizon for capital expenditure forecasts.

5.9. The PCC expects a positive liability benchmark across the forecast period, which generally means an authority is required to take external borrowing to fund the gap between its resources and the CFR. Where the liability benchmark rises above the current borrowing level on the Liability Benchmark chart, this indicates that further external borrowing is required as the balance sheet resources and current external borrowing combined are not sufficient to meet the CFR. Therefore Table 2 and Graph 1 illustrate that from 2024 the

PCC's existing borrowing is forecast to no longer be sufficient to meet the liability benchmark and the PCC will need to source external borrowing if it is to meet the full delivery of its capital programme.

5.10. Due to the levels of existing external borrowing in addition to the balance sheet resources available at 31 March 2024, it is expected that an additional £15.0m of further long-term external borrowing is required to be committed to during 2024/25.

5.11. Based on current estimates it is expected that by 31 March 2024 the Loans CFR will rise to £66.5m, net balance sheet resources will be £18.0m and existing external borrowing totals £58.7m. Therefore, the combination of balance sheet resources and existing external borrowing are not expected to be sufficient to match the CFR, and this borrowing requirement is expected to continue to rise until 2026/27. As a result, further borrowing will be considered by the Chief Financial Officer over the coming months, if required, and advice will continue to be taken from Arlingclose on the most appropriate time to borrow.

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

6. Borrowing Strategy

6.1. The PCC currently holds £25.5m of long-term loans as part of its strategy for funding previous years' capital programmes, alongside £17m of temporary borrowing to meet short-term liquidity requirements. In addition, £23.2m of further PWLB long-term borrowing has been secured with a start date of 4 January 2024 as follows:

Table 3: New borrowing arranged

Source	Repayment of principal	Principal £m	Term	Start date	Interest rate %	Interest terms
PWLB	On maturity	23.2	6 years	04/01/24	4.08	Fixed

6.2. The PCC chose to externalise the internal borrowing position and rebase the cash balance in this way to achieve cost certainty on the debt portfolio at an attractive rate whilst also reducing the risks associated with temporary borrowing.

6.3. The balance sheet forecast in Table 1 shows that the PCC may need to borrow up to £32.7m in 2024/25, dependent on the delivery of the capital programme. 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 £110.0m.

Objectives

6.4. 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

6.5. The PCC's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

6.6. 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 2024/25 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

6.7. 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.

6.8. The PCC may also arrange forward starting loans during 2024/25, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period (although there are no current plans to do this).

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

Sources of borrowing

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

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board).
- 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

6.11. 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

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

Short-term and variable rate loans

6.13. 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

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

7. Treasury Investment Strategy

7.1. The PCC holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the PCC's treasury investment balance has ranged between £4.9m and £29.5m, and as shown in Table 1, it is expected that balances will fall between now and 31 March 2024.

Objectives

7.2. The CIPFA Code requires the PCC to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The PCC's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. The PCC aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy

7.3. 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 2023 approximately 45% of the PCC's investment balances were invested so that they were not subject to bail-in risk, as they were invested in the strategic pooled property fund.

7.5. Of the 55% of investment balances that were subject to bail-in risk, 31% 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 69% was held in overnight bank call accounts for liquidity purposes. Further detail is provided at Appendix B.

Environmental, social and governance factors

7.6. Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the PCC does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the PCC will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Business models

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

Investments targeting higher returns

7.8. In previous years the PCC earmarked an amount of its cash balances for investments targeting higher yields; these were made from its most stable core balances with the intention that they would be held for at least the medium term, and it was targeted that these investments would achieve a return of at least 4%. This was a successful approach through the period of very low interest rates, as the pooled fund investment achieved higher interest rates than what was being achieved by cash investments and significantly increased the annualised average income return for the total investment portfolio.

7.9. Following the increases in UK Bank Rate the decision was made to subsume the investments targeting higher return within the long-term investment portfolio as there was no longer a significant difference between the interest rates being achieved by this investments and cash, as short-term interest rates are now comparable with longer term interest rates.

7.10. The PCC continues to invest in a pooled property fund which enables the PCC 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.

7.11. Diversification in itself does not guarantee positive outcomes. 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 they are likely to deliver good income returns for the longer term.

7.12. 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.

7.13. 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 investment. The PCC will also discuss this investment regularly with Arlingclose, in particular the longer timeframes for exiting the fund in comparison to other investments i.e. six months, who provide advice based on regular meetings with representatives from the pooled fund and their own ongoing due diligence on areas such as performance and investment style, strategy and process.

7.14. At the current time, given the medium to long term nature of the investment, it is unlikely that a capital loss would ever be realised, since the PCC would avoid selling investments that realised a capital loss. In addition to the risk of realising a capital loss, changes to IFRS 9 mean that capital gains and losses on investments need to be reflected in the revenue account on an annual basis, although there is currently a statutory override in place for local authorities (including police and crime commissioners) that exempts them from complying with this requirement.

Investment limits

7.15. The maximum that will be lent to any one organisation (other than the UK Government) will be £5m. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers as shown in Table 3.

Table 4: Investment limits

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

Approved Counterparties

7.16. 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	30 years	Unlimited	n/a
Local authorities & other government entities	25 years	£5m	Unlimited
Secured investments *	25 years	£5m	Unlimited
Banks (unsecured) *	13 months	£3m	Unlimited
Building societies (unsecured) *	13 months	£3m	£5m
Registered providers (unsecured) *	5 years	£3m	£5m
Money market funds *	N/A	£5m	Unlimited
Strategic pooled funds	N/A	£5m	£12.5m
Real estate investment trusts	N/A	£3m	£5m
Other investments *	5 years	£3m	£5m

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

*** Minimum credit rating**

7.17. 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.

Banks and building societies (unsecured)

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

7.20. 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 £0.1m as possible. Previously the minimum balance held with National Westminster has varied between £2m and £3m to allow for any unknown payments to be made without the risk of the PCC accessing an unauthorised overdraft facility with NatWest, however through analysis of historical balances it is clear that this level of minimum cash is not required. By bringing the minimum cash balance held with NatWest to £100,000 this reduces the level of temporary borrowing required and allows the PCC to benefit from market level interest rates on this balance, which NatWest does not offer.

7.21. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the PCC maintaining operational continuity.

Registered providers (unsecured)

7.22. 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.

Markets in Financial Instruments Directive

7.23. 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.

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

Government

7.25. Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 30 years.

Secured investments

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

Money market funds

7.27. 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

7.28. Shares or units in diversified investment vehicles consisting of bond, equity and property investments. These funds offer enhanced returns over the longer term but are more volatile in the short term and allow the PCC to diversify into asset classes other than cash without the need to own and manage the underlying investments. This sector also includes cash plus funds which are also a type of pooled fund, but are used for short-term funds, with a lower risk appetite. Because strategic pooled funds have no defined maturity date but are available for withdrawal after a notice period; their performance and continued suitability in meeting the PCC's investment objectives will be monitored regularly.

Real estate investment trusts (REITs)

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

Other investments

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

Risk assessment and credit ratings

7.31. 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.

7.32. 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

7.33. 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.

7.34. 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.

Reputational aspects

7.35. The PCC is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

Liquidity management

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

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

8. Treasury Management Prudential Indicators

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

Interest rate exposures

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

Table 6: Interest rate risk indicator

	31 December 2023 £m	Impact of +/-1% interest rate change £m
Sums subject to variable interest rates		
Investment	£5.5m	+/- £0.1m
Borrowing *	£17.0m	+/- £0.2m

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: Maturity Structure of Borrowing

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

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

Principal sums invested for periods longer than a year

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

Table 8: Price risk indicator

	2024/25	2025/26	2026/27	No fixed date
Limit on principal invested beyond a year	£10m	£10m	£10m	£2.5m

9. Prudential Indicators - Borrowing

Gross Debt and the Capital Financing Requirement

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

Table 9: Gross Debt and the Capital Financing Requirement

	31/03/24 Revised £m	31/03/25 Estimate £m	31/03/26 Estimate £m	31/03/27 Estimate £m
CFR	**69.4**	**83.9**	**118.2**	**125.3**
Debt				
Existing borrowing	(58.7)	(48.7)	(48.7)	(48.7)
New borrowing		(15.0)	(50.2)	(57.9)
Leases	(2.9)	(2.5)	(2.0)	(1.7)
Total Debt	**(61.6)**	**(66.2)**	**(100.9)**	**(108.3)**

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

Affordable Borrowing Limit

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

Table 10: Affordable Borrowing Limits

	2023/24 Revised £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Authorised Limit:				
Borrowing	(95.0)	(110.0)	(145.0)	(150.0)
Leases and other long-term liabilities	(10.0)	(10.0)	(10.0)	(10.0)
Authorised Limit	**(105.0)**	**(120.0)**	**(155.0)**	**(160.0)**
Operational boundary:				
Borrowing	(80.0)	(95.0)	(130.0)	(140.0)
Leases and other long-term liabilities	(5.0)	(5.0)	(5.0)	(5.0)
Operational Boundary	**(85.0)**	**(100.0)**	**(135.0)**	**(145.0)**

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.

11. Financial implications

11.1. The budget for investment income in 2024/25 is £0.1m, whilst the budget for debt interest paid in 2024/25 is £1.9m, 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.

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 the following table.

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

Table 11: Alternative strategies and their implications

Alternative	Impact on income and expenditure	Impact on risk management
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 2023

Underlying assumptions:

- UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.
- The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.
- Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the timelier PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.
- Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second round' effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.
- Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium- term level for Bank Rate.

- There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

Forecast:

- The MPC held Bank Rate at 5.25% in December. We believe this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early mid-2026.
- The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.
- Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.77	3.75	3.75	3.75	3.70	3.60	3.50	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.72	3.75	3.80	3.80	3.80	3.80	3.80	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.76	3.80	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%; PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%; UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B - Existing Investment & Debt Portfolio Position at 31 December 2023

Treasury investment position

Investments	30/09/2023 Balance £m	Net movement £m	31/12/2023 Balance £m	31/12/2023 Income return %	31/12/2023 Weighted average maturity years
Short term investments					
Banks and building societies:					
- Unsecured	2.20	(0.12)	2.08	1.70	0.01
Money Market Funds	0.29	0.66	0.95	5.33	0.01
	2.49	**0.54**	**3.03**	**2.84**	**0.01**
Long term investments					
Pooled funds:					
- Pooled property*	2.50	-	2.50	4.76	N/A
	2.50	**-**	**2.50**	**4.76**	**N/A**
TOTAL INVESTMENTS	**4.99**	**0.54**	**5.53**	**3.71**	**0.01**

*The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 December 2023 based on the market value of investments 12 months earlier.

Treasury management position

	31/12/2023 Balance £m	31/12/2023 Rate %
External Borrowing	(42.50)	(4.37)
Investments	5.53	3.71
Net Debt	**(36.97)**	

Appendix C - Q3 2023/24 Treasury Management Indicators at 31 December 2023

Investment limits	31/12/23 Actual £m	2023/24 Authorised Limit	Complied
The UK Government	-	Unlimited	✓
Local authorities & other government entities	-	Unlimited	✓
Secured investments	-	Unlimited	✓
Banks (unsecured)	2.08	Unlimited	✓
Building societies (unsecured)	-	£5m	✓
Registered providers	-	£5m	✓
Money market funds	0.95	Unlimited	✓
Strategic pooled funds	2.50	£12.5m	✓
Real estate investment trusts	-	£5m	✓
Other investments	-	£5m	✓

Debt limits	2023/24 Maximum £m	31/12/23 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied ?
Total debt	(65.7) *	(42.5)	(71.4)	(81.5)	✓

* Current borrowing of £42.5m and arranged new borrowing of £23.2m.

Maturity Structure of Borrowing	31/12/23 Actual*	Upper Limit	Lower Limit	Complied
Under 12 months	26%	65%	0%	✓
12 months and within 24 months	0%	35%	0%	✓
24 months and within 5 years	0%	35%	0%	✓
5 years and within 10 years	35%	35%	0%	✓
10 years and within 20 years	0%	65%	0%	✓
20 years and within 30 years	5%	65%	0%	✓
30 years and above	34%	100%	0%	✓

*Actual borrowing and arranged borrowing as at 31 December 2023.

Long term investments	2023/24	2024/25	2025/26
Actual principal invested beyond year end	£2.5m	£2.5m	£2.5m
Limit on principal invested beyond year end	£5m	£5m	£5m
Complied	✓	✓	✓

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[20] requires the organisation to have regard to the Department for Levelling Up, Housing & Communities (DLUHC)[21] guidance on Minimum Revenue Provision ("the Guidance"); most recently issued in February 2018. The broad aim of the DLUHC Guidance is to ensure that capital expenditure is financing is commensurate with the period over which the capital expenditure provides benefits.

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

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

What is a Minimum Revenue Provision (MRP)?

The England, Northern Ireland and Wales capital finance regulations and associated statutory guidance[22] place a duty on local authorities to charge to the revenue account a minimum revenue provision (MRP) that is deemed to be prudent. The Minimum Revenue Provision is a charge that Councils which are not debt free are required to make in their accounts for the repayment of debt (as measured by the underlying need to borrow, rather than actual debt). The underlying debt is needed to finance the capital programme.

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

[21] Formerly the Ministry of Housing, Communities and Local Government's Guidance (MCHLG)

[22] 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.

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

DLUHC Options

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

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

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

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

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

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

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

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

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

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[23]. 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[24] 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 the high inflationary environment that has been experienced over the past two years (see Appendix a.1)[25] and mitigates any potential impact from the so-called 'base effect'[26].

Application

As previously agreed, all eligible capital expenditure, incurred prior to 31 March 2022, continues 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.

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 DLUHC 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 service use.

23 2% inflation assumption

24 Normally 80 basis points above Gilt yields

25 CPI 3.9% - November 2023

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

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 adviser[27], that an asset will deliver service functionality for more than 50 years[28]. 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 2024, the budget for MRP has been set as follows:

Table 1.

	31.03.2024 Estimated CFR £m	**2024/25 Estimated MRP £m**
Total	66.5	3.5

Recommendation

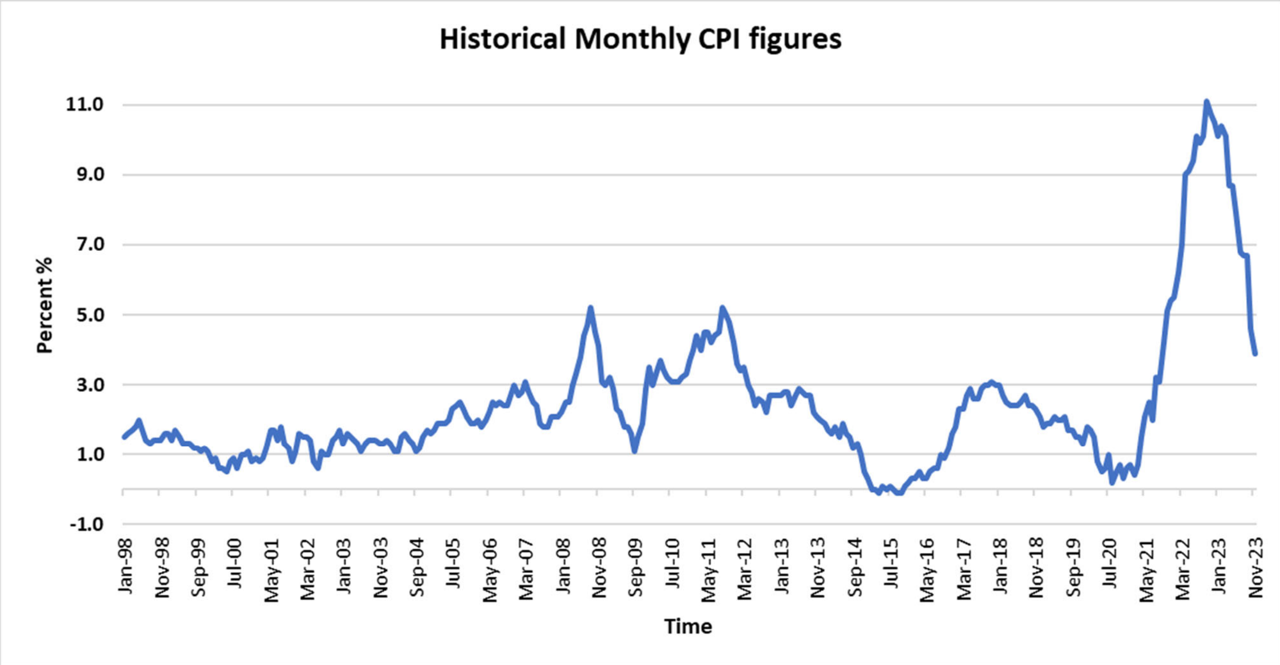
That the Police & Crime Commissioner approve the policy as set out.

27 For example, an RICS qualified land and property valuer

28 Para. 42 of Statutory Guidance on MRP

Appendix a – Annuity information

1. Historical CPI



2. Arlingclose rate forecasts[29]

Years	5	7	10	12	15	20	25	30	35	40	45	50
2023/24	5.40	5.25	5.15	5.10	5.15	5.25	5.40	5.50	5.55	5.55	5.50	5.45
2024/25	4.95	5.15	5.00	5.15	5.30	5.50	5.65	5.70	5.70	5.70	5.70	5.65
2025/26	4.95	5.05	5.05	5.15	5.40	5.60	5.70	5.70	5.75	5.75	5.70	5.70
2026/27	4.95	5.05	5.15	5.35	5.50	5.70	5.80	5.75	5.80	5.80	5.80	5.70
2027/28	5.10	5.35	5.45	5.55	5.75	5.90	5.95	5.85	5.90	5.90	5.90	5.80
2028/29	5.20	5.45	5.55	5.65	5.90	5.95	5.95	5.90	5.95	5.95	5.95	5.80

29 Technical Update – November 2023

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

Example 1			
Principal £'000	**50,000**		
Rate	**5.0%**		
Asset Life	**50**		
Year	**Annuity**	**Equal Instalment**	**(Decrease) /Increase**
1	239	1,000	(761)
2	251	1,000	(749)
3	263	1,000	(737)
4	276	1,000	(724)
5	290	1,000	(710)
6	305	1,000	(695)
7	320	1,000	(680)
8	336	1,000	(664)
9	353	1,000	(647)
10	371	1,000	(629)
11	389	1,000	(611)
12	408	1,000	(592)
13	429	1,000	(571)
14	450	1,000	(550)
15	473	1,000	(527)
16	497	1,000	(503)
17	521	1,000	(479)
18	547	1,000	(453)
19	575	1,000	(425)
20	604	1,000	(396)
21	634	1,000	(366)
22	665	1,000	(335)
23	699	1,000	(301)
24	734	1,000	(266)
25	770	1,000	(230)
26	809	1,000	(191)
27	849	1,000	(151)
28	892	1,000	(108)
29	936	1,000	(64)
30	983	1,000	(17)
31	1,032	1,000	32
32	1,084	1,000	84
33	1,138	1,000	138
34	1,195	1,000	195
35	1,255	1,000	255
36	1,317	1,000	317
37	1,383	1,000	383
38	1,452	1,000	452
39	1,525	1,000	525
40	1,601	1,000	601
41	1,681	1,000	681
42	1,765	1,000	765
43	1,854	1,000	854
44	1,946	1,000	946
45	2,044	1,000	1,044
46	2,146	1,000	1,146
47	2,253	1,000	1,253
48	2,366	1,000	1,366
49	2,484	1,000	1,484
50	2,608	1,000	1,608
Total	**50,000**	**50,000**	**0**

Example 2			
Principal £'000	**10,000**		
Rate	**5.0%**		
Asset Life	**30**		
Year	**Annuity**	**Equal Instalment**	**(Decrease)/ Increase**
1	151	333	(183)
2	158	333	(175)
3	166	333	(167)
4	174	333	(159)
5	183	333	(150)
6	192	333	(141)
7	202	333	(132)
8	212	333	(122)
9	222	333	(111)
10	233	333	(100)
11	245	333	(88)
12	257	333	(76)
13	270	333	(63)
14	284	333	(50)
15	298	333	(35)
16	313	333	(20)
17	329	333	(5)
18	345	333	12
19	362	333	29
20	380	333	47
21	399	333	66
22	419	333	86
23	440	333	107
24	462	333	129
25	485	333	152
26	510	333	176
27	535	333	202
28	562	333	229
29	590	333	257
30	620	333	286
Total	**10,000**	**10,000**	**0**

CAPITAL STRATEGY REPORT 2024/25

Introduction

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

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

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

Objectives

The key objectives of the Capital Strategy are to:

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

Capital Expenditure and Financing

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

In 2024/25, the organisation is planning capital expenditure of £25.0m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
TOTAL £m	10.7	22.4	24.9	44.6	18.9

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 SEB each year for approval.

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

Table 2: Capital financing breakdown

	2022/23 actual £m	**2023/24 forecast £m**	**2024/25 budget £m**	**2025/26 budget £m**	**2026/27 budget £m**
External sources	0.0	0.0	0.0	0.0	0.0
Capital receipts	2.0	0.0	6.5	6.1	7.7
Revenue resources	1.4	0.0	0.0	0.0	0.0
Debt	7.3	22.4	18.4	38.5	11.2
TOTAL	**10.7**	**22.4**	**24.9**	**44.6**	**18.9**

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

	2022/23 actual £m	2023/24 forecast £m	2024/25 estimate £m	2025/26 estimate £m	2026/27 estimate £m
Minimum revenue provision (MRP)	1.1	1.8	3.5	3.7	3.8
Capital receipts	2.0	0.0	6.5	6.1	7.7
TOTAL	**3.1**	**1.8**	**10.0**	**9.8**	**11.5**

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 £14.9m during 2024/25. 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)

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
TOTAL CFR £m	46.3	66.5	81.4	116.2	123.6

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 £20.0m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts receivable

	2022/23 actual £m	**2023/24 forecast £m**	**2024/25 estimate £m**	**2025/26 estimate £m**	**2026/27 estimate £m**
Asset sales	0.0	0.0	20.0	0.0	0.0
Loans etc repaid	0.0	0.0	0.0	0.0	0.0
TOTAL	**0.0**	**0.0**	**20.0**	**0.0**	**0.0**

Treasury Management

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

Due to decisions taken in the past, the organisation currently has £48.7m borrowing at an average interest rate of 3.95% and £2.5m treasury investments at 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 (see above).

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

	31.3.2023 actual £m	**31.3.2024 forecast £m**	**31.3.2025 budget £m**	**31.3.2026 budget £m**	**31.3.2027 budget £m**
Debt (incl. leases)	28.1	61.6	66.2	100.9	108.3
Capital Financing Requirement	48.9	69.4	83.9	118.2	125.3

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

	31.3.2023 actual £m	**31.3.2024 forecast £m**	**31.3.2025 budget £m**	**31.3.2026 budget £m**	**31.3.2027 budget £m**
Outstanding borrowing	25.5	58.7	63.7	98.9	106.6
Liability benchmark	33.0	68.5	83.7	118.9	126.6

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

	2023/24 limit £m	2024/25 limit £m	2025/26 limit £m	2026/27 limit £m
Authorised limit – borrowing	(95.0)	(110.0)	(145.0)	(150.0)
Authorised limit – leases	(10.0)	(10.0)	(10.0)	(10.0)
Authorised limit – total external debt	**(105.0)**	**(120.0)**	**(155.0)**	**(160.0)**
Operational boundary – borrowing	(80.0)	(95.0)	(130.0)	(140.0)
Operational boundary – leases	(5.0)	(5.0)	(5.0)	(5.0)
Operational boundary – total external debt	**(85.0)**	**(100.0)**	**(135.0)**	**(145.0)**

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

Table 9: Year-end treasury management investments

	31.3.2023 actual £m	31.3.2024 forecast £m	31.3.2025 estimate £m	31.3.2026 estimate £m	31.3.2027 estimate £m
Short-term investments	0.0	0.0	0.0	0.0	0.0
Longer-term investments	2.5	2.5	2.5	2.5	2.5
TOTAL	**22.3**	**20.8**	**18.8**	**18.8**	**18.8**

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

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to Hampshire County Council officers[30], who must act in line with the treasury management strategy approved by the PCC at the Decision-Making Meeting (DMM), with quarterly reports on treasury management activity being presented to DMM on a quarterly basis. The joint audit committee is responsible for scrutinising treasury management decisions.

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 providing a net return after all costs of 3.5% - 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[31], 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

[30] The Chief Finance Officer retains overall responsibility.

[31] 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 carried out before investment is made and where deemed appropriate independent and expert advice and scrutiny will be sought.

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

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

Liabilities

In addition to debt of £48.7m detailed above, the organisation is committed to making future payments to cover its Local Government (LGPS) pension fund deficit (valued at £26m surplus – 2022/23[32]).

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

Revenue Budget Implications

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

[32] From unaudited 2022/23 financial statements

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

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Financing costs (£m)	2.0	3.1	4.6	5.0	6.0
Proportion of net revenue stream	0.8%	1.2%	1.7%	1.8%	2.2%

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 2023