York and North Yorkshire Combined Authority

COMBINED AUTHORITY MEETING

15 MARCH 2024

COMBINED AUTHORITY BUDGET 2024/25

Report of the interim Director of Resources (s73 officer)

1.0 Purpose of the Report

1.1 To note the suite of budget reports approved by the Police, Fire and Crime Commissioner that will transfer to the Combined Authority on 7th May 2024.

2.0 Recommendations

2.1 The Committee is asked to note the revenue and capital budgets for fire, policing and crime that will transfer to the Combined Authority on 7th May 2024. The Committee is also asked to note the Treasury Management Strategy Statements attached as annexes 3 and 4 to this report.

3.0 Background

3.1 The inaugural Combined Authority on 22nd January approved an initial budget to cover those functions that transferred into the Authority on 1st February. The Committee also approved a Treasury Management Strategy.

3.2 The election for the mayor of York and North Yorkshire is due to take place on 2 May 2024 and once elected, the Combined Authority will then become a Mayoral Combined Authority with the new mayor also taking on the functions of the Police Fire and Crime Commissioner for North Yorkshire.

3.3 The Police, Fire and Crime Commissioner considered and approved a Medium Term Financial Plan and Capital Plan for both Policing and the Fire and Rescue Authority on 27 February 2024. The full reports are linked as background papers to this report, with a summary of the key points set out in the following paragraphs. The Combined Authority is asked to note the budget in advance of the transfer of these functions to the Authority on 7th May 2024.

3.4 Once the Authority has a Corporate Plan, and has appointed to the relevant Statutory Officer posts, work will begin to develop a Medium Term Financial Strategy that will allow for more detailed budget planning over a 4 year period for the whole of the Combined Authority.

4.0 Analysis

<u>North Yorkshire Fire</u>

4.1 The revenue budget for North Yorkshire Fire is set at £45,180k and is delegated to the Chief Fire Officer. Whilst £414k of reserves are being released to support the budget, these reserves are directly matched to non-recurring expenditure and are therefore not being used to balance the budget.

4.2 The Capital Programme for North Yorkshire Fire is set at £8,078k and external borrowing of up to £6,970k can be undertaken during the year, if required.

Policing

4.3 The revenue budget for Policing is set at £221,012k, allocated to the following areas:

- £1,520k to run the Office of the PFCC
- £7,500k for Commissioned Services and Community Safety Initiatives
- £700k for Asset Management Costs
- £207,450k to the Police Force
- £4,936k to the Capital Programme
- £1,094k from Earmarked Reserves

4.4 The Capital Programme for Policing is set at £12,017k.

Treasury management

4.5 The treasury management strategy approved by the Combined Authority in January covered the functions that were part of the Authority at that time. Following the Mayoral election in May, the policing and fire functions bring in an existing capital programme and treasury management strategy. During this first full year of operation the treasury management strategy of all 3 organisations will be reviewed and a revised combined strategy will eventually be created.

4.6 However, in the interim the existing Treasury Management strategies will remain in place to ensure capital expenditure and resources, and any associated risks, are managed effectively. The recently approved strategies for Fire and Police are attached at annexes 3 and 4.

5.0 Financial Implications

5.1 The financial implications are set out in the body of the report and in the following tables.

5.2 The tables below set out the high level budgets approved by the Police, Fire and Crime Commissioner.

	Actual Budget 2023/24 £'000	Forecast Budget 2024/25 £'000	Forecasts 2025/26 £'000	2026/27 £'000	2027/28 £'000
Funding					
Total Settlement Funding	(8,918)	(11,028)	(11,248)	(11,473)	(11,703)
Rural Services Grant	(604)	(699)	(699)	(699)	(699)
Council Tax Precept	(25,123)	(26,160)	(27,320)	(28,530)	(29,795)
Council Surplus/Deficit	(129)	(205)	(160)	(160)	(160)
NNDR Surplus/Deficit	56	48	0	0	0
Funding for the Net Budget Requirement	**(34,719)**	**(38,044)**	**(39,427)**	**(40,862)**	**(42,357)**
%age change in Net Budget Requirement	10.6%	9.6%	3.6%	3.6%	3.7%
S31 NDR Grants and Specific Grants	(4,833)	(5,599)	(5,274)	(5,290)	(4,814)
General Income	(718)	(1,197)	(1,061)	(1,078)	(1,096)
TOTAL FUNDING	**(40,269)**	**(44,840)**	**(45,762)**	**(47,231)**	**(48,267)**
%age change in Total Funding	7.8%	11.4%	2.1%	3.2%	2.2%
Expenditure					
Wholetime Firefighters	19,205	20,757	20,424	20,832	21,309
On Call Firefighters	4,000	4,487	5,036	5,137	5,239
Support Staff - Fire	1,596	2,615	2,578	2,585	2,698
Support Staff - Enable	2,830	2,458	2,442	2,507	2,628
Control Room Staff	891	946	942	966	988
Direct Staff Costs	**28,523**	**31,262**	**31,422**	**32,027**	**32,862**
Indirect Staff Costs	590	651	579	607	583
PFCC Staff Costs	83	83	85	87	88
Premises	2,395	2,563	2,629	2,684	2,736
Transport	1,052	1,108	1,153	1,176	1,200
Supplies and Services	3,936	4,033	4,070	4,078	4,135
Operating Leases	2	2	2	2	2
External Service Agreements	263	362	274	279	285
PFI (inc. capital element)	1,709	1,883	1,928	1,991	1,260
TLB allocation		50	50	50	50
Total Indirect Staff and Non Staff Costs	**10,031**	**10,734**	**10,770**	**10,955**	**10,339**
PENSIONS	892	1,044	975	976	962
TOTAL EXPENDITURE BEFORE CAPITAL CHARG	**39,446**	**43,040**	**43,166**	**43,958**	**44,164**
Provision for Debt Repayment	1,044	1,141	1,414	1,766	1,918
External Interest	675	713	1,108	1,342	1,519
Revenue Contribution to Capital	265	286	182	125	420
Total Capital Charges	**1,984**	**2,140**	**2,704**	**3,233**	**3,857**
TOTAL EXPENDITURE BUDGET	**41,430**	**45,180**	**45,870**	**47,191**	**48,021**
(Surplus)/Deficit before Reserves	1,161	339	108	(40)	(245)
Planned Transfers to/(from) Earmarked Reserves:					
New Developments Reserve	(334)	(318)			
RRM	(400)				200
ESMCP/Local Transition Resource Reserve	(57)				
Home Office Protection Uplift Grant Reserve	(321)	(74)	(148)		
Collection Fund reserve	(22)	(22)			
Planned Transfers to/(from) General Fund	0	75	40	40	45
(Surplus)/Deficit After Reserves	**0**	**0**	**0**	**0**	**0**

Table 1 Summary revenue budget North Yorkshire Fire

	Estimated 2023/24 £000	Estimated 2024/25 £000	Estimated 2025/26 £000	Estimated 2026/27 £000	Estimated 2027/28 £000
FUNDING					
Reserve Brought Forward	**2,995**	2,063	1,141	832	593
Revenue Contribution to Capital	253	286	182	125	420
Capital Receipts	52				
Borrowing	3,116	6,870	5,417	3,082	2,520
Estates Replacement Borrowing		100	1,573	2,608	3,340
TOTAL FUNDING	**3,421**	**7,256**	**7,172**	**5,815**	**6,280**
EXPENDITURE					
Transport excluding Cars	2,007	3,922	4,617	2,382	120
Transport - Cars	829	301	148	118	0
Estates	1,109	1,048	800	700	700
ICT	408	908	342	246	510
Control System					1,700
Logistics	0	1,900	0	0	0
TOTAL APPROVED CAPITAL PROGRAMME	**4,353**	**8,078**	**5,907**	**3,447**	**3,030**
ESTATES REPLACEMENT PROGRAMME	**0**	**100**	**1,573**	**2,608**	**3,340**
TOTAL CAPITAL PROGRAMME	**4,353**	**8,178**	**7,480**	**6,055**	**6,370**
Reserve Carried Forward	**2,063**	**1,141**	**832**	**593**	**503**

Table 2 Summary capital budget North Yorkshire Fire

	Actual Budget 2023/24	Proposed Budget 2024/25	2025/26	2026/27	2027/28
Core Funding	£000s	£000s	£000s	£000s	£000s
Government Grant	(83,766)	(88,770)	(90,546)	(92,357)	(94,204)
Council Tax Precept	(92,454)	(97,445)	(102,482)	(107,796)	(113,239)
Council Tax Freeze Grant	(2,152)	(2,152)	(2,152)	(2,152)	(2,152)
Council Tax Support Grant	(5,746)	(5,746)	(5,746)	(5,746)	(5,746)
Funding for Net Budget Requirement	**(184,118)**	**(194,113)**	**(200,925)**	**(208,051)**	**(215,341)**
%age Change in Net Budgetary Requirement	3.3%	5.4%	3.5%	3.5%	3.5%
Other Funding					
Specific Grants	(8,791)	(17,733)	(11,737)	(11,738)	(11,738)
Partnership Income/Fees and Charges	(8,465)	(9,166)	(8,499)	(8,376)	(8,336)
Total Funding	**(201,374)**	**(221,012)**	**(221,162)**	**(228,165)**	**(235,415)**
%age Change in Funding	5.2%	9.8%	0.1%	3.2%	3.2%
Office of the PCC Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Total Planned Expenditure	**1,435**	**1,520**	**1,590**	**1,630**	**1,665**
Commissioned Services	£000s	£000s	£000s	£000s	£000s
Total Planned Expenditure	**6,131**	**7,500**	**5,050**	**5,015**	**5,040**
	£000s	£000s	£000s	£000s	£000s
Asset Management	**640**	**700**	**850**	**970**	**1,165**
Police Force Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Pay					
Police Pay	96,951	106,717	107,990	110,004	111,367
Police Overtime	2,904	2,613	3,331	4,085	3,708
PCSO Pay (incl Overtime)	6,880	6,770	8,100	8,936	9,122
Staff Pay (incl Overtime)	44,875	47,390	48,518	49,481	50,512
Pay Total	**151,610**	**163,490**	**167,939**	**172,506**	**174,709**
Non-Pay Budgets					
Other Non Salary	2,390	4,731	2,576	2,559	2,555
Injury and Medical Police Pensions	4,051	4,475	4,514	4,505	4,505
Premises	5,722	5,561	5,674	5,787	5,900
Supplies and Services	23,779	26,079	25,908	26,280	27,394
Transport	3,523	3,114	3,159	3,198	3,262
Non-Pay Total	**39,465**	**43,960**	**41,831**	**42,329**	**43,616**
Total Planned Force Expenditure	**191,075**	**207,450**	**209,770**	**214,835**	**218,325**
%age Change in Expenditure	8.0%	8.6%	1.1%	2.4%	1.6%
Total Expenditure Budgets	**199,281**	**217,170**	**217,260**	**222,450**	**226,195**
	£000s	£000s	£000s	£000s	£000s
(Surplus)/Deficit before Reserves/Capital	**(2,093)**	**(3,842)**	**(3,902)**	**(5,715)**	**(9,220)**
Planned Transfers to/(from) General Fund	(1,000)				1,000
Contribution to Capital Programme	3,938	4,936	4,139	6,015	8,220
Planned Transfers to/(from) Earmarked Reserves	(845)	(1,094)	(237)	(300)	0
Net (Surplus)/Deficit After Reserves	**0**	**(0)**	**0**	**(0)**	**0**
General Reserves	£000s	£000s	£000s	£000s	£000s
General Fund Balance b/f	6,602	5,602	5,602	5,602	5,602
Proposed (Use of)/Contribution to General Fund	(1,000)	0	0	0	1,000
General Fund Balance c/f	**5,602**	**5,602**	**5,602**	**5,602**	**6,602**
Average Employee Numbers	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,645	1,660	1,645	1,645	1,645
PCSOs	177	163	192	208	208
Police Staff	1,142	1,203	1,191	1,189	1,189
Assumptions					
Staff Pay Increases	4.0%	2.5%	2.0%	2.0%	2.0%
Police Pay Increases	4.0%	2.5%	2.0%	2.0%	2.0%
Non Pay Inflation	calculated	calculated	2.0%	2.0%	2.0%
Precept Increases	5.0%	4.0%	3.9%	3.8%	3.6%
Government Grant Increases	0.3%	6.0%	2.0%	2.0%	2.0%

Table 3 Summary revenue budget Policing

Capital Financing and Expenditure					
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	£000s	£000s	£000s	£000s	£000s
Earmarked Reserve/Funding b/f	**17,103**	**13,985**	**10,660**	**6,181**	**6**
Capital Receipts - vehicles and PPE	500	525	550	550	550
Capital Receipts from Estates Strategy	465	0	350	1,090	0
Contributions (to)/from Revenue	4,909	4,936	4,139	6,015	8,220
Borrowing	1,911	4,387	2,759	639	1,042
Projected in-year funding available	7,785	9,848	7,798	8,294	9,812
Capital and Project Plans					
ICT	3,372	4,377	2,916	8,826	3,565
Fleet	4,099	2,810	4,418	3,195	3,997
Estates	1,911	4,387	1,484	639	1,042
Other Rolling Programmes and Schemes	617	368	338	302	392
Other Schemes	396	75	12	47	8
Total Agreed Programme	10,395	12,017	9,169	13,009	9,004
Change Pipeline	508	1,155	3,109	1,460	211
Earmarked Reserve/Funding c/f	13,985	10,660	6,181	6	603

Table 4 Summary capital budget Policing

6.0 Risks

6.1 The reports attached at annexes 1 and 2 outline areas of risk for the 2024/25 budget, but all known issues are incorporated within the financial plans. The Chief Finance Officer for Policing, Fire and Crime is satisfied that the proposed spending plan for 2024/25 is sound and robust.

7.0 Legal Implications

7.1 The Officer of the Police, Fire and Crime Commissioner will be abolished when the Mayor is elected and the services transferred to the Combined Authority. In order for those services that transfer to continue operating business as usual, pay staff, pay suppliers, etc. they will need to have a budget that has been reported to the Combined Authority.

8.0 Equalities Implications

8.1 It is not expected that the budget outlined in this report will have any adverse impacts on people with protected characteristics. Future budget or investment decisions will be underpinned by an Equality Impact Assessment.

9.0 Environmental Implications

9.1 There are no environmental implications to this report.

10.0 Combined Authority Areas Impacted (Council Areas/Wards/Divisions)

10.1 The budget impacts on all areas of the Combined Authority.

11.0	**Recommendations**
11.1	The Committee is asked to note the budgets and treasury management strategies for policing and crime that will transfer to the Combined Authority on 7th May 2024.

12.0 Reasons For Recommendations

12.1 To ensure that the Police, Fire and Crime services that transfer to the Authority on the 7th May have an appropriate level of approved budget.

13.0 Contact Details

For further information please contact the authors of this report.

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Appendices

Annex 1 - Medium Term Financial Plan (MTFP) 2024/25 to 2027/28 and Capital Plans 2024/25 to 2027/28 - North Yorkshire Fire

Annex 2 - Medium Term Financial Plan (MTFP) 2024/25 to 2027/28 and Capital Plans 2024/25 to 2027/28 - Policing

Annex 3 – Treasury Management Strategy – North Yorkshire Fire

Annex 4 – Treasury Management Strategy - Policing

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North Yorkshire Police, Fire & Crime Commissioner

Report of the Chief Finance Officer of the PFCC to the Police, Fire and Crime Commissioner Fire and Rescue Authority (PFCCFRA) for North Yorkshire

27th February 2024

Status: For Decision

Medium Term Financial Plan (MTFP) 2024/25 to 2027/28 and Capital Plans 2024/25 to 2027/28 - North Yorkshire Fire.

1. Executive Summary

1.1 Purpose of the Report

1.2 The report sets out the detailed Budget for 2024/25 and the Medium Term Financial Plan (MTFP) for 2024/25 – 2027/28 in line with the legal requirement to set a budget prior to the 1st March each year for the following financial year. It also asks the PFCC to agree the funding for the Capital Programme for 2024/25 and the indicative allocations for the period 2025/26 to 2027/28.

2. Recommendations

2.1 The PFCC is requested **to approve** the Revenue Budget as set out within this report and in doing so the delegation of an expenditure budget to the Chief Fire Officer of £45,180k in line with the plans set out within this report.

2.2 The PFCC is asked **to note** that the Budget for 2024/25 is being supported through the release of £414k from reserves although it is important to recognise that the release of these reserves are directly matched to non-recurring expenditure and are not being used to balance the budget.

2.3 The PFCC is asked **to note** that the Budget for 2024/25 **adds £75k into the General Fund** to maintain this Reserve at 3% of Net Budget Requirement in line with the Reserves Strategy.

2.4 The PFCC is asked **to approve** the Reserves Strategy that is attached at Appendix B.

2.5 The PFCC is asked **to note** that the 2024/25 budget is based on the approved £2.41, or 2.99%, increase in the level of Band D precept for 2024/25.

2.6 The PFCC is asked **<u>to note</u>** the Robustness of Estimates and Adequacy of Financial Reserves Advice from the PFCCs CFO that is included within this report.

2.7 The PFCC is asked **<u>to approve</u>** that additional External Borrowing of £6,970k can be taken out during the year, if required, to fund the Capital Programme.

2.8 The PFCC is asked **<u>to approve</u>** that the Capital Programme is initially set at £8,078k, as set out at Appendix A, for 2024/25 and within that programme approve that:

- Indicative approval of the 2025/26 Capital Programme budgets, as set out in Appendix A, and delegation of approval of any requests to pre-order against the 2025/26 budgets to the Commissioners Chief Finance Officer, up to 25% of each indicative budget. The 2025/26 Capital Programme will be submitted for formal approval at this time next year.

- Delegation to the Commissioners Chief Finance Officer to approve, where needed and appropriate, for the carry forward of any slippage from the approved 2023/24 Capital Programme into 2024/25.

2.9 The PFCC is asked **<u>to note</u>** that the Capital Programme contains £100k to begin the Estates Replacement Programme during 2024/25. This is **<u>not</u>** included within the requested £8,078k Capital Programme as any approval of these schemes will need to be subject to a separate business case and/or decision of the PFCC before this money is made available to spend.

2.10 The PFCC is asked **<u>to approve</u>** that quarterly updates on performance against both the revenue and capital budgets are reported to the PFCC via the Executive Board.

3. Planning and Funding Assumptions

3.1 <u>Local Government Finance Settlement 2024/25</u>

3.2 On 18 December 2023, the Secretary of State for Levelling Up, Housing and Communities Michael Gove MP, set out the Provisional Local Government Finance Settlement for 2024-25 in the form of a Written Ministerial Statement. Alongside the statement, details of the provisional settlement have been published on the Gov.uk website. The Secretary of State stated that the proposals announced today "…will provide councils with the support they need. It ensures stability, delivers additional resources for social care, and maintains balance on council tax"

3.3 It is important to note that many smaller grants have not been announced as part of the Provisional Settlement and are announced separately. The Home Office is expected to announce a series of Fire and Rescue grants in January and February 2024.

3.4 Subsequent to this initial announcement and based on consultation feedback on the provisional settlement the Secretary of State provided a further Statement on the 24th January 2024 setting out the following:

- An additional £500 million of funding for local government to deliver social care
- An increase to the Funding Guarantee to 4%, ensuring that all authorities see a minimum increase in Core Spending Power of 4%, before local decisions on council tax - a key ask of district councils.
- Increased support for rural councils by increasing the Rural Service Delivery Grant by £15m

3.5 Headlines

3.6 Last year, in early December 2022, the Department for Levelling Up, Housing and Communities (DLUHC), published a policy statement which included some broad indications for the 2024-25 Settlement, but still left several unknowns. On 5 December 2023, DLUHC published a second "policy statement" which contained more indications of what the 2024-25 announcement would include. These statements are intended to assist local authorities with their planning, especially when Provisional Settlements are announced so late in the year

3.7 The Settlement and Updated Settlement went on to confirm much of the policy statement and provided the following headlines:

- Fire and Rescue Authorities' precept flexibility remains at 3%.

- Standalone FRAs see smallest Core Spending Power increase of all classes.

- Core Spending Power increases by an average of 7.5% across the board.

- Services Grant reduces by 84% to £77m. Social care grants rise by 20%.

- 4% Funding Guarantee continues in 2024-25 - ensures councils get at least 4% increase in Core Spending Power, before council tax or decisions on use of reserves.

- Rural Services Delivery Grant increased from £95m to £110m.

- Fire and Rescue Pensions Grant (£115m) now included within Core Spending Power

3.8 Fire Pensions Grant

3.9 Last year a total of four grants rolled into Revenue Support Grant (RSG) and this year the previously provided Fire Pensions Grant worth £115m is also rolled in. The distribution of the Fire Pensions grant is remaining the same and the funding is being transferred after the RSG inflationary uplift. This means that in future years this funding will also increase by the increase in the small business rate multiplier.

3.10 Funding Guarantee

3.11 In 2023-24, DLUHC used £25m of the legacy New Homes Bonus and the Lower Tier Services Grant (£111m in 22-23) to fund what was described at the time as a "one-off funding guarantee". However, this has been extended to a second year.

3.12 The Funding Guarantee for 2024/25 now ensures that all Local Authority's will see at least a 4% increase in Core Spending Power before 'organisational efficiencies' (i.e., internal savings), use of reserves and council tax precept increases (although taxbase growth will be included).

3.13 Over 75% of the 44 English fire and rescue authorities receive an allocation from the Funding Guarantee. This is because the guarantee applies before additional council tax income, and therefore authorities for which council tax makes up a significant portion of their Core Spending Power are more likely to hit the 4% threshold.

3.14 Services Grant (£77m)

3.15 Last year's Services Grant was described as "one off" but is continuing in 2024/25. In 2022-23 the Services Grant was £822m and in 2023-24 it was £483m. The 2024-25 provisional settlement announcement indicates the grant is falling further to just £77m – a reduction of £406m.

3.16 Rural Services Delivery Grant

3.17 The Rural Services Delivery Grant has now increased by £15m to £110m in 2024-25, after increasing by £10m last year.

3.18 Business Rates

3.19 Up until April 2024, the Small Business Rate Multiplier (SBRM) and the Standard Multiplier have been linked (standard is 1.3p more than SBRM).

3.20 This has meant that either they both increase or are both frozen. However, earlier this year, the Government consulted on changes to Business Rates, which included decoupling the increase in the SBRM from the increase in the standard rate.

3.21 This means that, from April 2024, the two rates can be set independently. The 2023 Autumn Statement announced that the SBRM was to be frozen at 49.9p in the pound, whilst the Standard Multiplier is increasing by the CPI increase 6% to 54.6p. This decoupling affects under-indexing compensation payments as well as Baseline Funding Levels and Tariffs/Top-ups.

3.22 What does this mean for North Yorkshire Fire in 2024/25 in terms of Funding?

3.23 Based on the agreed precept, of £83.02 for a Band D property, then the overall impact on the Core Spending Power for the organisation is set to increase by 5.2%, or just under £2.0m, as set out in the table below:

Local and Government Funding				
	2024/25	2023/24	(Increase)/Reduction	Year on Year Change
	£000s	£000s	£000s	%age
Government Funding				
Total Settlement Funding	(11,028)	(9,284)	(1,744)	18.8%
Rural Services Grant	(699)	(604)	(95)	15.8%
Services Grant/Funding Guarantee	(763)	(249)	(515)	206.7%
Pensions Grant		(1,711)	1,711	-100.0%
Compensation for Underindexing of Business Rates	(1,315)	(1,088)	(228)	20.9%
Total Government Funding	**(13,805)**	**(12,935)**	**(870)**	6.7%
Impact of a £2.41 (2.99%) increase in Band D Precept				
Net Surplus on Collection Funds	(205)	(129)	(76)	
Council Tax Requirement	(26,160)	(25,123)	(1,037)	
Total Local Funding	**(26,365)**	**(25,253)**	**(1,113)**	**4.4%**
Total Government + Local Funding	**(40,171)**	**(38,188)**	**(1,983)**	**5.2%**

3.24 Funding beyond Core Spending Power

3.25 Firelink Grant

3.26 The Home Office had previously written to Fire Authorities during 2022/23 indicating that this grant will be phased out by 2026/27. Therefore the £230k that was received by North Yorkshire in 2021/22 will reduce by £45k per year. The grant is not included within the Core Spending Power analysis.

3.27 Fire Pensions Grant

3.28 The Home Office have announced that there will be a further 2024-25 Fire Pensions Grant of £85.3m, this is to compensate for an increase in the Employers Pension Contribution Rate into the Fire Pension Fund of 8.8%.

3.29 This separate grant has been calculated/allocated based on a four-year average of employer's contributions. The Grant for North Yorkshire has been confirmed as £1,336k – as with many other Fire Authorities our calculations would suggest this is insufficient to cover the additional costs of the 8.8% increase fully.

3.30 The initial estimate calculates that the grant will be too low by £120k in 2024/25.

3.31 In addition to this a Grant of £6m towards pension administration costs has been provided for 2024/25, North Yorkshire's share of this is £94k.

3.32 It is expected that the additional Pensions grant funding (as well as other specific grants for fire and rescue) will only be allocated on a one-year basis by the Home Office, with future years subject to Spending Review in the usual way.

Funding for 2025/26 and beyond

3.33 2024/25 is the final year of the current Spending Review period and therefore there is very little formal guidance for future plans.

3.34 The current plan has therefore assumed that Government Funding will continue to increase by CPI and that this will be 2%.

3.35 The current plan also assumes that Fire Authorities will continue to be afforded, at least, the same opportunity to consider a precept increase of up to 3% per year, and therefore this plan assumes a 2.99% increase each year.

3.36 The current plan does not consider any changes to funding that may occur as a result of the Fire Authority becoming part of the Mayoral Combined Authority in May 2024.

3.37 MTFP Assumptions

A review of the assumptions within the MTFP has been undertaken, these will remain under review and are updated with the best information available, the current assumptions incorporated into the MTFP for 2024/25 and beyond are as follows:

- Pay Awards: Pay Increase of 3% in 2024/25, followed by 2% increases thereafter
- Precept: Increases of 2.99% per annum
- Tax Base increases 1.2% in 2024/25 with increases of 1.4% thereafter,
- Government Grants: 2024/25 – CPI increase of 2% per year
- Nil impact from any Fair Funding/Funding Formula review
- Nil impact from Business Rates Retention
- Rural Service Delivery Grant continues at £699k per annum.
- One-off Services Grant is added into the overall funding baseline.
- Inflation: 2% for most non-pay areas from 25/26 onwards.
- Any pensions changed are fully funded by the Government.

3.38 It is important to recognise that these are assumptions and as such could easily change. These will be kept under close scrutiny/review as the year progresses and updates provided as/when more information becomes available.

3.39 Precept

Almost 70% of the Net Budget Requirement for the North Yorkshire Fire and Rescue Service is funded by the local precept and therefore when this area is constrained to below inflationary increases this causes greater challenges in North Yorkshire than most other Fire Services.

3.57 Some areas only receive 45% of their funding from the Precept with the average nationally, across Fire and Rescue Services, about 60%.

3.58 In publishing the final council tax referendum principles for 2024/25 the Government provided Fire Authorities with the scope to increase Precept by up to 2.99% for a Band D property before triggering a local referendum.

3.59 Consultation was undertaken within North Yorkshire and the results published as part of the supporting information for the PFCC's decision to propose a 2.99% (or £2.41) increase in the Band D precept for 2024/25. This proposal was supported by the Police, Fire and Crime Panel and therefore this budget incorporates a Band D 'Fire' precept for 2024/25 for North Yorkshire of £83.02.

3.60 **Results from Public Consultation**

3.61 To further inform the decision around the proposed precept for 2024/25 consultation has been undertaken with the public to ascertain their feedback and thoughts on this subject.

3.62 The consultation was conducted via an online survey and by telephone, to ensure a representative sample of North Yorkshire and the City of York residents by age, gender and geography.

3.63 The public were asked the following:

3.64 North Yorkshire Fire and Rescue Service has a budget of £40 million – the majority of that, over 60 per cent, comes from the precept on your council tax.

3.65 To provide a similar level of service to now, they think they will need around an extra £2.5m – £3m due to salary increases and the rising cost of fuel, utilities and interest on loans.

3.66 The Government are expected to say that Commissioner Zoë can raise the fire precept by £5 from April – that would be an increase of 6.2%, an extra 10 pence per week for an average Band D property. Even this would only raise £1.6m of that extra demand

3.67 The following options are based on an average Band D property currently paying £80.61 each year for Fire and Rescue. How much more would you be prepared to pay per year, through your council tax for fire and rescue services?

- No more than I pay now – a precept freeze

This would mean a significant cut to the fire and rescue budget due to inflation and current service delivery could not be maintained.

- Up to £2.41 a year more (20 pence per month), an increase of 2.99%
  This would raise around £750k, however is significantly below inflation and would likely lead to reductions in current levels of service delivery.

- Up to £5 a year more (42 pence per month), an increase of 6.2%
  This would raise around £1.6m, is broadly in line with the organisation's inflationary pressures and would lead to no reductions in planned levels of service delivery.

- Up to £7.50 a year more (63 pence per month), an increase of 9.3%
  This would raise around £2.4m, is likely to be higher than the organisation's inflationary pressures and would allow some additional investment into fire and rescue service delivery.

3.68 In total 1,684 responses were received via the open online survey and a further 996 interviews over the telephone. The open survey was published on the PFCC website and promoted widely via social media.

3.69 A summary of the overall results is shown in the table below:

	Total (n=2,680)	Telephone (n=996)	Online (1,684)
No more than I pay now a precept freeze	**31%**	35%	28%
Up to £2.41 a year more (20 pence per month), an increase of 2.99%	**15%**	17%	15%
Up to £5 a year more (42 pence per month), an increase of 6.2%	**31%**	32%	31%
Up to £7.50 a year more (62 pence per month), an increase of 9.3%	**23%**	16%	27%
TOTAL who support an increase of at least 2.99%	**69%**	65%	72%

3.70 Combined results (online and telephone) from the consultation show a majority (69%) support an increase of at least 2.99% in the fire and rescue precept, which is the level proposed within this report.

3.71 Had there been the scope to increase the precept by £5, which was provided last year, then around 54% of those surveyed supported this option.

3.72 The Tax Base
The two local Councils have notified the PFCC of their tax bases for 2024/25 as set out in the table below:

Tax Base		
	2024/25	**2023/24**
	Net Tax Base	Net Tax Base
North Yorkshire County Council	246,010	243,034
York City Council	69,098	68,633
Total	**315,107**	**311,667**
Annual Increase/(Decrease)	**3,441**	
Percentage Increase/(Decrease)	**1.10%**	

3.73 The tax base is expressed in terms of Band D equivalent properties. Actual properties are converted to Band D equivalent by allowing for the relevant value of their tax bands as set down in legislation (ranging from 2/3rds for Band A to double for Band H; discounts for single person occupation, vacant properties, people with disabilities etc;) and a percentage is deducted for non-collection. Allowance is also made for anticipated changes in the number of properties.

3.74 The tax base calculated by the billing authorities differ from the figures used by the Government (which assumes 100% collection) in calculating Grant Formula entitlements.

3.75 As can be seen from the table above the number of Band D equivalent properties across North Yorkshire has increased in 2024-25, in comparison to 2023-24, by 3,441 – this equates to an increase of 1.10%

3.76 The 2024/25 tax base is therefore 315,107.29 Band D Equivalent properties

3.77 Setting the Council Tax

3.78 The precept calculation needs to take account of any net surplus or deficit on the billing authority collection funds. Projected surplus/deficits on the individual funds are shown in the table below.

Collection Funds Surplus/ (Deficit)	
	£
North Yorkshire County Council	241,366
York City Council	(36,163)
Net Surplus/(Deficit) on Collection Fund	**205,203**

3.79 The surpluses/deficit that have arisen need to be returned through the precept. The final precept to be levied will reflect the position on each council's collection fund.

3.80 Business Rates

3.81 While the Fire Authority's income is heavily reliant on income from Council Tax payers there is also another element of the income that is generated from local taxation and this is from Business Rates.

3.82 The Fire Authority receives 1% of the Business Rates collected within North Yorkshire which usually equates to around £3m per annum, and similar to Council Tax this is collected by the local councils and paid to the Fire Authority.

3.83 As with Council Tax there are variations between the amounts expected to be paid and those actually received/paid. The Fire proportion of the Business Rates collection fund **deficit** across North Yorkshire as a whole was £48k for 2023/24, down from £56k in 2022/23. This will be paid to the councils during 2024/25

3.84 The assumptions for both Council Tax and Business Rates will all be kept under review as details for future years become available and projections amended accordingly.

3.85 S31 NNDR Grants and Specific Grants
The overall budget in this area has increased from £4.8m in 2023/24 to a forecast of £5.6m in 2024/25.

3.86 The main areas within this area of the budget are:

- Pensions Grant - £1,336k
- PFI Grant - £649k – this Grant will continue, at the same level, until the PFI contract comes to an end during 2026/27.
- Business Rates Grant - £2,379k – these are 'normal' reliefs and under-indexation adjustments.
- Funding Guarantee - £669k
- Protection Uplift Grant - £242k

3.87 General Income

3.88 This area reflects income from secondments, fees and service income, recharges and interest receivable. This area is forecast to generate around £500k more income in 2024/25 than 2023/24 predominantly as a result of higher interest rates leading to higher interest receivable (£324k) being generated on the cash balances that we hold, also a change to accounting for the income from sales of vehicles being recorded as revenue expenditure, instead of capital (£175k)

3.89 The entire funding therefore expected to be available to the PFCCFRA for the next 4 years, in comparison to 2023/24, is as follows:

	Actual Budget 2023/24 £'000	Forecast Budget 2024/25 £'000	Forecasts 2025/26 £'000	2026/27 £'000	2027/28 £'000
Funding					
Total Settlement Funding	(8,918)	(11,028)	(11,248)	(11,473)	(11,703)
Rural Services Grant	(604)	(699)	(699)	(699)	(699)
Council Tax Precept	(25,123)	(26,160)	(27,320)	(28,530)	(29,795)
Council Surplus/Deficit	(129)	(205)	(160)	(160)	(160)
NNDR Surplus/Deficit	56	48	0	0	0
Funding for the Net Budget Requirement	**(34,719)**	**(38,044)**	**(39,427)**	**(40,862)**	**(42,357)**
%age change in Net Budget Requirement	10.6%	9.6%	3.6%	3.6%	3.7%
S31 NDR Grants and Specific Grants	(4,833)	(5,599)	(5,274)	(5,290)	(4,814)
General Income	(718)	(1,197)	(1,061)	(1,078)	(1,096)
TOTAL FUNDING	**(40,269)**	**(44,840)**	**(45,762)**	**(47,231)**	**(48,267)**
%age change in Total Funding	7.8%	11.4%	2.1%	3.2%	2.2%

3.90 Once all funding sources have been factored in then we currently forecast that Total Funding will increase by **just under £4.6m**, or 11.4% in 2024/25.

3.43 It is important to reflect that while total income is expected to be around £2.6m higher than the increase in Core Spending Power, much of this £2.6m doesn't provide any real net benefit to the Authority, for the following reasons:

- £1.3m is a result of a new pensions grant that is required to fund higher pension contribution rates for firefighters
- £0.3m is a result of higher interest rates –which is offset by higher external interest payments.
- £0.2m is expected to be the level of Specific Grant relating to Protection Uplift which is matched to additional expenditure
- £0.1m is additional secondment income – which is offset by higher costs to cover for those people on secondment.
- £0.2m is a reclassification of income for the sale of vehicles between Capital and Revenue and therefore provides no net benefit to the Service.

4 Expenditure Plans

4.1 **Pay Increases and Inflation Pressures**

4.2 While the overall increases in Total Funding seem reasonable across the life of the plan, and very good in 2024/25, it is important to reflect on the additional costs that need to be funded from these increases.

4.3 The 2023/24 pay budgets had forecast that pay awards would be 5% during 2023/24. While this was agreed for Firefighters prior to the budget being set the increase for staff was not agreed.

4.4 Given the significant increases in inflation that occurred during 2023/24 the increase for staff was agreed at a rate higher than the 5% budgeted, that being an increase of £1,925 for those earning up to £49,950 and 3.88% for higher earners. This settlement equated to an overall increase of just over 6%, and an additional cost of £42k which has a recurring impact within the financial plans

4.5 In addition to the current year position on pay the MTFP now forecasts that the pay award for Firefighters will be 3% and for Staff it will be 2.5% for 2024/25.

4.6 Each 0.5% higher than these assumption would add a further £145k to the position in this report.

4.7 As mentioned previously in the report there will be a significant increase in the Employer Pension Contribute Rate into the Firefighter Pension Scheme from 28.8% to 37.6% - this 8.8% increase is expected to cost around £1,455k in 2024/25.

4.8 The impact of these assumptions are additional costs of around £2.2m in 2024/25, in comparison to the 2023/24 position. The costs make up the majority of the £2.7m increase in the forecast pay budget, with the other items included within the table below:

Forecast additional Pay Costs			
	2024/25	**2025/26**	**2026/27**
	£000s	£000s	£000s
Impact of 23/24 Support Staff Pay Award	45	45	45
Increase in FF Pension Contribution Rate	1,455	1,485	1,515
Assume 3%/2.5% Pay Awards in 24/25	705	855	875
Additional costs of secondments and Grant Funded Posts	170	120	120
Staff Growth	285	145	145
Other sundry movement	80	250	340
Total Forecast Additional Pay Costs	**2,740**	**2,900**	**3,040**

4.9 In addition to pay pressures, there are a significant number of non-pay pressures in 2024/25 arising mostly from inflation.

Impact of Inflation and Pressures/Growth on Non-pay Budgets:			
	2024/25	**2025/26**	**2026/27**
	£000s	£000s	£000s
Indirect Staff Costs	150	80	110
Premises	235	300	355
Transport	70	116	140
Supplies and Services	495	531	540
External Agreements	105	10	10
PFI	195	240	300
Capital Financing	155	719	1,250
Pensions	150	80	80
Total Forecast Additional Non-Pay Costs	**1,555**	**2,075**	**2,785**

4.10 The areas of significant increase are as follows:

4.11 **Indirect Staff Costs** are forecast to increase by £150k, before savings, predominantly as a result of increased need for operational training.

4.12 **Premises Costs** are forecast to increase by £235k before savings, mostly as a result of higher business rates (£160k) and then wider general inflation.

4.13 **Transport Costs** are forecast to increase by £70k, before savings, this is being driven by higher insurance costs and higher use of fuel due to increased prevention and protection work.

4.14 **Supplies and Services Costs** are forecast to increase by £495k, before savings, predominantly as a result of:

- Breathing Apparatus contract costs as the Service switches to new equipment with improved functionality- £100k,
- Higher operational equipment costs - £70k,
- Higher Uniform and Work wear costs - £85k
- Higher ICT costs due to inflation - £185k

4.15 **External Agreements** are forecast to increase by £105k, mainly resulting for the additional funding from the Home Office to provide additional support/resource into Pension Administration.

4.16 **PFI Costs** are forecast to increase by £195k as the contract price is linked to RPI increases.

4.17 **Capital Financing Costs** are forecast to increase by £120k in 2024/25. Most of this relates to increases in interest payable on the loans required to fund the Capital Programme.

4.18 Putting together all of the cost increases, along with movements on reserves, results in potential additional costs and pressures of just over £5.1m as set out within the table below:

Forecast additional Pay Costs	2024/25	2025/26	2026/27
	£000s	£000s	£000s
Impact of 23/24 Support Staff Pay Award	45	45	45
Increase in FF Pension Contribution Rate	1,455	1,485	1,515
Assume 3%/2.5% Pay Awards in 24/25	705	855	875
Additional costs of secondments and Grant Funded Posts	170	120	120
Staff Growth	285	145	145
Other sundry movement	80	250	340
Total Forecast Additional Pay Costs	**2,740**	**2,900**	**3,040**
Impact of Inflation and Pressures/Growth on Non-pay Budgets:	**2024/25**	**2025/26**	**2026/27**
	£000s	£000s	£000s
Indirect Staff Costs	150	80	110
Premises	235	300	355
Transport	70	116	140
Supplies and Services	495	531	540
External Agreements	105	10	10
PFI	195	240	300
Capital Financing	155	719	1,250
Pensions	150	80	80
Total Forecast Additional Non-Pay Costs	**1,555**	**2,075**	**2,785**
Changes to Reserve Movements	**820**	**1,050**	**1,200**
Potential Additional Costs and Pressures	**5,115**	**6,025**	**7,025**

4.19 As set out above the vast majority of these increases are unavoidable costs.

4.20 These costs absorb all of the forecast increase in income in 2024/25 of £4,570k, leaving savings of £545k to be delivered to balance the budget in 2024/25.

4.21 Projected increases in income in future years are expected to be absorbed by increases in both Pay and Non-Pay inflation. This will therefore require the Service to become either more efficient and/or change its future operating model to be able to invest further in the future beyond the currently agreed RRM proposals.

4.22 **'Normal' Savings Plans**

4.23 The search for savings and efficiencies continues to receive a lot of focus and a further **£545k of non-pay savings/reductions** (equivalent to around 5% of our Indirect staff and non-staff costs) have been factored into the 2024/25 MTFP, these are summarised below:

- Supplies and Services - £345k
- Indirect Staff Costs - £90k
- Premises Costs - £70k
- PFI - £20k
- Transport - £15k
- Other - £5k

4.24 **Combining all of these elements allows the Service to set and demonstrate a balanced budget for both 2024/25 and beyond.**

4.25 By balancing the budget at this level the Service can continue to concentrate on the following areas that are vital in developing, transforming and improving the Service.

4.26 **Risk and Resource Model**

4.27 On the 27th September 2022 the Commissioner approved the new North Yorkshire Fire and Rescue Service Risk and Resource Model 2022-25, subject to stipulations placed on some proposals.

4.28 The changes that have the most impact in terms of cashable efficiencies were as follows:

- That the proposal to change Huntington to an On-call fire station be approved. – **this was implemented in 2023/24**

- That the proposal to replace the Tactical Response fire engine at Harrogate with an Emergency Rescue fire engine which will be crewed only during peak demand hours be approved –planned implementation in 24/25 saving £210k.

- That the proposal to replace the Tactical Response fire engine at Scarborough with an Emergency Rescue fire engine which will be crewed only during peak demand hours be approved, subject to certain stipulations. - planned implementation in 2025/26 saving £215k

4.29 The financial plans for 2024/25 and beyond assume that all of the remaining proposals set out within this decision are implemented including the investment in On-Call availability and investment in Prevention and Protection removing the need to staff an Operational Staffing Reserve – saving £375k from 2025/26.

4.30 The timing of the actual delivery of these changes will be tracked through the year to inform financial forecasts and to ensure future plans align with their delivery.

4.31 **Transformation and Investment**

4.32 As well as the above efficiencies the new RRM approved a number of investments as part of the transformation of the service.

4.33 Those investments covered the following areas:

- That the proposal to enhance prevention and protection services and increase resources with additional firefighter and non-firefighter roles be approved and adopted – **phase 1 of this investment was agreed during 2023/24 with recruitment in roles to take place.** Phase 2 remains planned from 2025/26.

- That the introduction of a swift water rescue capability at Skipton be expedited – **this was implemented during 2023/24**

- That plans to reform, improve and enhance the On-call service in North Yorkshire be progressed to full business case.

4.34 A number of the plans in this area will continue to be developed and firmed up however for financial planning purposes there is an assumed phased implementation in line with the below:

- Prevention and Protection – phase 2 + £107k, 2.5 FTEs from April-25
- On-Call Investment
    - 24/25 - £332k
    - 25/26 - £788k

4.35 As set out within the RRM consultation and subsequent decision making all of the efficiencies from the RRM work are planned for re-investment into the Service and have not been used to balance the budget.

4.36 To ensure financial balance the implementation of all aspects of the RRM will need to align to ensure that the investments are not undertaken in advance of the delivery of the efficiencies.

4.37 Where the efficiencies can be delivered sooner than assumed this will allow for some elements of the Transformation and Investment programme to be brought forward too.

5 Overall Revenue Budget Summary

5.1 Sections 3 and 4 of this report set out the details of the Income and Expenditure for both the coming financial year and the assumptions about future years. This results in the following summary revenue budget and MTFP.

	Actual Budget 2023/24 £'000	Forecast Budget 2024/25 £'000	Forecasts 2025/26 £'000	Forecasts 2026/27 £'000	Forecasts 2027/28 £'000
Funding					
Total Settlement Funding	(8,918)	(11,028)	(11,248)	(11,473)	(11,703)
Rural Services Grant	(604)	(699)	(699)	(699)	(699)
Council Tax Precept	(25,123)	(26,160)	(27,320)	(28,530)	(29,795)
Council Surplus/Deficit	(129)	(205)	(160)	(160)	(160)
NNDR Surplus/Deficit	56	48	0	0	0
Funding for the Net Budget Requirement	**(34,719)**	**(38,044)**	**(39,427)**	**(40,862)**	**(42,357)**
%age change in Net Budget Requirement	10.6%	9.6%	3.6%	3.6%	3.7%
S31 NDR Grants and Specific Grants	(4,833)	(5,599)	(5,274)	(5,290)	(4,814)
General Income	(718)	(1,197)	(1,061)	(1,078)	(1,096)
TOTAL FUNDING	**(40,269)**	**(44,840)**	**(45,762)**	**(47,231)**	**(48,267)**
%age change in Total Funding	7.8%	11.4%	2.1%	3.2%	2.2%
Expenditure					
Wholetime Firefighters	19,205	20,757	20,424	20,832	21,309
On Call Firefighters	4,000	4,487	5,036	5,137	5,239
Support Staff - Fire	1,596	2,615	2,578	2,585	2,698
Support Staff - Enable	2,830	2,458	2,442	2,507	2,628
Control Room Staff	891	946	942	966	988
Direct Staff Costs	**28,523**	**31,262**	**31,422**	**32,027**	**32,862**
Indirect Staff Costs	590	651	579	607	583
PFCC Staff Costs	83	83	85	87	88
Premises	2,395	2,563	2,629	2,684	2,736
Transport	1,052	1,108	1,153	1,176	1,200
Supplies and Services	3,936	4,033	4,070	4,078	4,135
Operating Leases	2	2	2	2	2
External Service Agreements	263	362	274	279	285
PFI (inc. capital element)	1,709	1,883	1,928	1,991	1,260
TLB allocation		50	50	50	50
Total Indirect Staff and Non Staff Costs	**10,031**	**10,734**	**10,770**	**10,955**	**10,339**
PENSIONS	892	1,044	975	976	962
TOTAL EXPENDITURE BEFORE CAPITAL CHARG	**39,446**	**43,040**	**43,166**	**43,958**	**44,164**
Provision for Debt Repayment	1,044	1,141	1,414	1,766	1,918
External Interest	675	713	1,108	1,342	1,519
Revenue Contribution to Capital	265	286	182	125	420
Total Capital Charges	**1,984**	**2,140**	**2,704**	**3,233**	**3,857**
TOTAL EXPENDITURE BUDGET	**41,430**	**45,180**	**45,870**	**47,191**	**48,021**
(Surplus)/Deficit before Reserves	1,161	339	108	(40)	(245)
Planned Transfers to/(from) Earmarked Reserves:					
New Developments Reserve	(334)	(318)			
RRM	(400)				200
ESMCP/Local Transition Resource Reserve	(57)				
Home Office Protection Uplift Grant Reserve	(321)	(74)	(148)		
Collection Fund reserve	(22)	(22)			
Planned Transfers to/(from) General Fund	0	75	40	40	45
(Surplus)/Deficit After Reserves	**0**	**0**	**0**	**0**	**0**

5.2 The Service is projecting a balanced MTFP after the net use of Reserves in 2024/25 of £339k, with smaller use of Reserves in 2025/26. However the Service will generate a surplus in 2026/27 and 2027/28 to repay the ESMCP Reserve that the Home Office have given authorisation to use to accelerate the investment in the on-call service and also to add to General Reserves to maintain this at the minimum level.

5.3 The main assumptions that underpin the plan are as follows:

	Actual Budget 2023/24 £'000	Forecast Budget 2024/25 £'000	Forecasts 2025/26 £'000	Forecasts 2026/27 £'000	Forecasts 2027/28 £'000
General Reserves	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
General Fund Balance b/f	1,075	1,075	1,150	1,190	1,230
Proposed (use of)/contribution to General Fund	0	75	40	40	45
Current Year Forecast	0	0	0	0	0
General Fund Balance c/f	**1,075**	**1,150**	**1,190**	**1,230**	**1,275**
Employee Numbers (Budgeted as at 1st April)	FTEs	FTEs	FTEs	FTEs	FTEs
Wholetime Firefighters	308.0	286.0	272.0	272.0	272.0
On Call Firefighters	342.0	342.0	342.0	342.0	342.0
Support Staff - Fire	32.0	63.0	58.0	58.0	58.0
Support Staff - Enable	61.5	51.0	51.0	51.0	51.0
Control Staff	17.5	18.5	18.5	18.5	18.5
Assumptions					
Firefighter/Staff Pay Increase	5.0%	3%/2.5%	2.0%	2.0%	2.0%
Non Pay Inflation	calculated	calculated	2.0%	2.0%	2.0%
Precept Increase	6.6%	2.99%	2.99%	2.99%	2.99%
Council Tax Base Increase	1.2%	1.1%	1.4%	1.4%	1.4%

5.4 While the budget is exceptionally tight and there are a number of risks for the future years, all of the known plans that the Service has are incorporated within the financial plans and provide a stable platform from which the Service can continue to deliver the Risk and Resource Model, the Transformation Programme and therefore ultimately deliver against the Fire and Rescue Plan.

6 Capital Financing and Expenditure

6.1 The funding of the capital programme continues to be one of the most significant challenges facing the Authority. The significant need for investment has been highlighted for a number of years now, however the financial position has been a recurring barrier to the investment given the challenge of the affordability of the revenue consequences of the investment.

6.2 To try to better manage these conflicting needs the financing of the Capital Programme was reviewed during 2022/23 and updated along with a review of Reserves and the creation of a much larger Capital Reserve.

6.3 This reserve is forecast to be around £2m at the start of 2024/25.

6.4 As previously mentioned there is a need for some significant investment within the Estate from which the Fire Service operates. Some of this required immediate attention to ensure that the buildings were both more accessible to a more diverse workforce and the public, and funds were set aside to address these, with the work expected to be completed in 2023/24.

6.5 Estates

6.6 The Estates Capital budget for 2024/25 includes £400k, slipped from 2023/24 for the completion of the work on Ripon Fire Station that is already underway.

6.7 The budget also includes £2.5m across the plan (£500k per year) for the on-going capital works required to maintain the Estate, a further £800k across the plan in relation to Training Towers and £200k for works on the Transport and Logistics Hub.

6.8 It has also been mentioned previously that there is a need to assess entire buildings and determine whether they are suitable for the delivery of modern day services. While affordability will remain a key challenge, plans to refresh the estate are being developed and based on current financial projections it is expected that options to start this programme of work could begin in 2024/25, **subject to affordable business cases and approval**.

6.9 The current Capital plans include capacity for an Estates Replacement programme to begin with the development of a business for one station in 2024/25, with the potential for a further station to begin in 2025/26 and then another in 2026/27.

6.10 In total almost £11m has been included within the Capital Programme to fund this work should business cases be developed that are value for money and are approved.

6.11 Fleet

6.12 In addition to the need, and want, to invest in the Estate it has also been a challenge to replace some elements of the Fire Fleet over the last couple of years primarily due to the pandemic. The Service has placed orders for 16 new Fire Appliances, 12 for delivery in 2024/25 and a further 4 in 2025/26. In total these 16 new Fire Appliances will cost around £5.3m.

6.13 In addition to this the plan also includes the funding to purchase 15 additional Appliances that will be between 6 and 7 years old, to replace Appliances that are currently within the Fleet but are much older than this.

6.14 The replacement of 31 Appliances, which is around 75%, of the Appliance Fleet will significantly reduce the age of the Fleet, which should increase both its overall reliability and therefore reduce repair, maintenance and parts costs.

6.15 Further details on the Fleet Capital Programme are included as Appendix A. It is worth noting that if the Capital Plans are fully delivered for 2023/24, 2024/25 and 2025/26 then 155 vehicles/assets are due to be replaced.

6.16 While some of this is growth, the Fleet Strategy set out in October 2022 that there were 194 vehicles/assets within the Fleet overall and therefore this is a considerable replacement programme over just a 3-year period.

6.17 Logistics

6.18 Work will also conclude in 2024/25 towards the replacement of the Breathing Apparatus used within the Service. This will be a significant investment by the Service with options to bring this vital piece of equipment fully up to date. £1.9m has been estimated, and included within the 2024/25 Capital Programme, for the costs of this investment, however the actual costs will be firmed up through once the procurement exercise has concluded and contracts awarded.

6.19 ICT

6.20 A detailed assessment of the IT requirement for the Service have been undertaken which sets out plans to invest around £2.3m over the next 5 years maintaining, replacing and investing in the IT for the Service.

6.21 The Capital Programme also includes a placeholder for the review, upgrade or replacement of the Control System IT/infrastructure in 2027/28 and 2028/29.

6.22 All of these Capital plans will be refreshed, refined, prioritised and kept under close review to ensure that they are both affordable and necessary as the Service develops.

6.23 The Capital Programme included within this MTFP and summarised below, is based on a programme of expenditure of just over £28m across the next 4 years if all of the schemes, including the Estates replacement programme are approved/delivered.

This is being predominantly funded through borrowing which could total just over £25m during the 4 year period from 2024/25 to 2027/28.

	Estimated 2023/24 £000	Estimated 2024/25 £000	Estimated 2025/26 £000	Estimated 2026/27 £000	Estimated 2027/28 £000
FUNDING					
Reserve Brought Forward	**2,995**	2,063	1,141	832	593
Revenue Contribution to Capital	253	286	182	125	420
Capital Receipts	52				
Borrowing	3,116	6,870	5,417	3,082	2,520
Estates Replacement Borrowing		100	1,573	2,608	3,340
TOTAL FUNDING	**3,421**	**7,256**	**7,172**	**5,815**	**6,280**
EXPENDITURE					
Transport excluding Cars	2,007	3,922	4,617	2,382	120
Transport - Cars	829	301	148	118	0
Estates	1,109	1,048	800	700	700
ICT	408	908	342	246	510
Control System					1,700
Logistics	0	1,900	0	0	0
TOTAL APPROVED CAPITAL PROGRAMME	**4,353**	**8,078**	**5,907**	**3,447**	**3,030**
ESTATES REPLACEMENT PROGRAMME	**0**	**100**	**1,573**	**2,608**	**3,340**
TOTAL CAPITAL PROGRAMME	**4,353**	**8,178**	**7,480**	**6,055**	**6,370**
Reserve Carried Forward	**2,063**	**1,141**	**832**	**593**	**503**

6.24 It is important to recognise that borrowing at this level is unsustainable and therefore when considering future service delivery options there needs to be a recognition that one of the outcomes from this will be to deliver and sustainably support the capital investments/needs of the Service.

6.25 The longer term Building replacement plans have been reflected upon and phased into the plans to coincide with the end of the PFI scheme. This is expected to provide the capacity within the Revenue budget to pay for the additional interest and debt repayment costs that will result from increasing investment and borrowing.

6.26 The CIPFA Prudential Code of Practice is a key element in the system of capital finance. Under this system individual PFCCFRA's are responsible for deciding the level of their affordable borrowing having regard to the prudential code. The associated paper 'Treasury Mgmt Strategy 24-25' will provide the PFCC with reasonable assurance that the proposed Capital Plan and its financing are within prudential limits.

7. Reserves

7.1 The level of usable reserves of fire and rescue authorities is of particular interest at a national level and it is has been recognised that there is a need for greater transparency around reserves. This is being achieved through the publication of a Reserves Strategy which for North Yorkshire is attached at Appendix B.

7.2 The Strategy includes a summary of the use of Reserves included within this MTFP with some further context provided below.

7.3 It was agreed that the New Development Reserve would fund the Transformation Team to the end of 2024/25. It was then expected that these roles would cease unless savings/efficiencies could be found to make them permanent.

7.4 The 2024/25 MTFP has incorporated these roles into the revised and agreed Business Design and Assurance Team with these resources permanently funded from 2025/26 in line with previous planning assumptions.

7.5 The Home Office wrote to the Service to provide authorisation to use £400k of the funding that was sat within Earmarked Reserves, for ESMCP, to accelerate the investment in the On-Call Service. This funding was released during 2023/24 in line with this agreement.

7.6 The release of the £400k was subject to repayment and there are plans in place to start this in the final year of this MTFP.

7.7 The Home Office have previously provided funding to enable the Service to invest in Protection services and 'Uplift' the resources in that area. This funding has specific terms that mean it can only be used for certain areas of work. The Grant is being released from Reserves to meet the costs of undertaking this specific work.

7.8 It was previously expected that if the grant funding stopped that these roles would also come to an end and therefore the use of these reserves did not support core work.

7.9 The proposed investment in the Prevention and Protection area, aligned with the continued delivery of savings and efficiencies means that it is now forecast that these roles will be incorporated into the permanent structures of the service when/if the additional funding from the Home Office comes to an end.

7.10 The use of Reserves in the manner set out is therefore not a concern for the Service, the Reserves are funding additional expenditure that could be removed if financially necessary however the current financial plans forecast that this won't be needed.

7.11 Based on current projections **overall** reserves are forecast as follows:

- End of 2023/24 - £5.2m (14% of Net Budget Requirement)
- End of 2024/25 - £3.9m (10% of Net Budget Requirement)
- End of 2025/26 - £3.5m (8.5% of Net Budget Requirement)
- End of 2026/27 - £3.3m (7.7% of Net Budget Requirement)

8. Risks

8.1 The major risks and unknowns surrounding the figures presented here are set out below and have been discussed in the above report:

- Pay Awards are higher than the assumptions within the plan
- Any differences between the future years' actual Government Grant settlements, and the estimated figures.
- Business Rates Retention and Fair Funding Review
- Variations in future years between the estimated tax base used and the actual declared tax base.
- That the public does not support the precept increases that are factored into the current plans.
- Increasing costs of the employers Pension Contribution into the Fire Pension Fund.
- Sensitivity of assumptions, including inflation and borrowing costs.
- The ability and capacity to either absorb growth/cost pressures and/or deliver savings to enable expenditure in essential areas to continue.
- Ability to deliver the savings included within the plans within the timeframes set and also to the level needed whilst delivering the required levels of service.

9 Robustness Advice

9.1 The Local Government Act 2003 introduced a formal requirement on authorities to consider the advice of the Treasurer/s151 Officer on the robustness of the budget proposals, including the level of reserves. If the PFCC ignores this advice the Act also requires them to record this position. This latter provision is designed to recognise the statutory responsibilities of Treasurers/Chief Finance Officers.

9.2 For the reasons set out in this report and from my own review of the estimates process I am satisfied that the proposed spending plan for 2024/25 is sound and robust. There are however a number of areas of savings that will need to be delivered from a revenue perspective in 2024/25 to deliver the proposed budget. The likely risk from a financial perspective, however, in terms of revenue spending in 2024/25 is likely to be in relation to the levels of pay awards agreed during the year as well as significant levels of non-pay inflation that are clearly feeding through into the costs for the Service.

9.3 It will be vital to continue to closely monitor the financial position throughout 2024/25 to ensure that the efficiency and savings plans, that are required to provide the capacity for the transformation work, are delivered in a timely manner.

9.4 The reliance on borrowing to fund the Capital plans of the organisation is an area of on-going concern and something that will need to be considered especially given what appears to be a need for significant investment in the asset base of the Fire Service.

9.5 The plans are however robust and the focus will continue to be on delivering the schemes and the benefits that are expected from those schemes.

9.6 A review has been undertaken of Fire's reserves and general balances. The general balances and reserves are an important part of the PFCC's risk management strategy giving the financial flexibility to deal with unforeseen costs or liabilities. Assuming the approval of the plan set out in the budget report, I am satisfied that the PFCC would have adequate levels of financial reserves and general balances through 2024/25 provided that service restructuring is delivered and future growth, if any, is managed and funded from sustainable savings.

9.7 The medium term projection on reserves is one that will need to be closely monitored. Funding will be added to the General Reserve to ensure that is remains at 3% of Net Budget Requirement, however beyond this the Authority has very little in other reserves to draw on should pay awards be higher than planned, costs increase higher than assumptions and/or funding assumptions prove to be too optimistic.

10 Conclusion

10.1 The impact of the financial settlement, the agreed precept, and the savings and efficiency plans, has enabled the Service to meet the significant financial pressures from both pay and non-pay inflation. As well as this the Service has incorporated into its balanced MTFP its continued plans for investing and transforming the Service and has also set out a recurring balanced MTFP that is projected to show a surplus in years 3 and 4 of the plan, to replace an Earmarked Reserve that is being used in 2023/24 and also maintain the General Reserve at the minimum level.

10.2 The financial plan is aligned to the agreed Risk and Resource Model, it incorporates a phased delivery of the Transformation Programme and the investment into Prevention and Protection as well as the on-call service.

10.3 From a Capital perspective, the proposals from all areas of the business are incorporated into the 2024/25 proposals allowing for significant investment in both Fleet and Estates, with plans for also for investment into Breathing Apparatus.

10.4 The Service should therefore have everything that it needs from a financial perspective to deliver against the Fire and Rescue Plan during 2024/25.

APPENDIX A

CAPITAL PROGRAMME 2023/24 TO 2027/28

	Estimated 2023/24 £000	Estimated 2024/25 £000	Estimated 2025/26 £000	Estimated 2026/27 £000	Estimated 2027/28 £000
FUNDING					
Reserve Brought Forward	**2,995**	2,063	1,141	832	593
Revenue Contribution to Capital	253	286	182	125	420
Capital Receipts	52				
Borrowing	3,116	6,870	5,417	3,082	2,520
Estates Replacement Borrowing		100	1,573	2,608	3,340
TOTAL FUNDING	**3,421**	**7,256**	**7,172**	**5,815**	**6,280**
EXPENDITURE					
Transport excluding Cars	2,007	3,922	4,617	2,382	120
Transport - Cars	829	301	148	118	0
Estates	1,109	1,048	800	700	700
ICT	408	908	342	246	510
Control System					1,700
Logistics	0	1,900	0	0	0
TOTAL APPROVED CAPITAL PROGRAMME	**4,353**	**8,078**	**5,907**	**3,447**	**3,030**
ESTATES REPLACEMENT PROGRAMME	**0**	**100**	**1,573**	**2,608**	**3,340**
TOTAL CAPITAL PROGRAMME	**4,353**	**8,178**	**7,480**	**6,055**	**6,370**
Reserve Carried Forward	**2,063**	**1,141**	**832**	**593**	**503**

NYPFCCFRA Capital Programme (Pending Approval) 2023/24 - 2027/28		*Forecast* 2023/24		2024/25		2025/26		2026/27		2027/28	
		No.	*£000*	*No.*	*£000*	*No.*	*£000*	*No.*	*£000*	*No.*	*£000*
Transport	Rescue Pumps	-	1,108	*12*	2,866	*4*	1,351	-	-	-	-
Transport	Rescue Pumps (WYFRS)	-	-	*15*	255	-	-	-	-	-	-
Transport	Vans and Support Vehicles	*25*	780	*6*	101	*8*	148	*5*	112	*5*	82
Transport	4x4 Vehicles (Landrover or equivalent)	-	-	*5*	425	*6*	510	-	-	-	-
Transport	Aerial Appliances	-	-	-	-	*1*	1,000	*1*	1,000	-	-
Transport	Off Road Tracked	-	-	-	-	*2*	104	-	-	-	-
Transport	Pool Cars	-	-	*3*	49	*2*	32	-	-	-	-
Transport	Response Cars	*23*	829	*8*	301	*4*	148	*3*	118	-	-
Transport	Emergency First Responder Cars	-	-	-	-	-	-	-	-	-	-
Transport	P&P investment	*3*	34	*11*	134	*3*	36	-	-	-	-
Transport	ICUx1	*1*	60	-	-	-	-	-	-	-	-
Transport	Trailers	-	-	*1*	2	*6*	25	-	-	*9*	38
Transport	Water Rescue Boats	*1*	25	*1*	60	-	-	-	-	-	-
Transport	Water Tankers/Bowsers	-	-	-	-	-	-	*2*	1,000	-	-
Transport	Welfare Vehicle	-	-	-	-	*1*	55	-	-	-	-
Transport	Telematics	-	-	-	30	-	-	-	-	-	-
TOTAL TRANSPORT		***53***	**2,836**	***62***	**4,222**	***40***	**4,765**	***12***	**2,501**	***14***	**120**
Logistics	Breathing Aparatus (new sets EOL replacement)		-		1,900		-		-		-
TOTAL LOGISTICS			**-**		**1,900**		**-**		**-**		**-**
Estates	Capital Works (Based on SCS Information)		309		500		500		500		500
Estates	Training Towers Renewal Programme		-		-		200		200		200
Estates	Ripon Alterations		200		400		-		-		-
Estates	Inclusivity Programme		600		-		-		-		-
Estates	T&L Hub		-		100		100		-		-
TOTAL ESTATES RENEWAL			**1,109**		**1,048**		**800**		**700**		**700**
Estates	Inclusivity Programme		-		-		-		-		-
TOTAL ESTATES REPLACEMENT			**-**		**100**		**1,573**		**2,608**		**3,340**
TOTAL ESTATES			**1,109**		**1,148**		**2,373**		**3,308**		**4,040**
Mobilising, Telephony and Bearers:	Network Replacement and Upgrade Programme		29		81		101		84		142
Mobilising, Telephony and Bearers:	Telephony Equipment Replacements and Upgrades		-		50		-		-		-
Mobilising, Telephony and Bearers:	Station End Equipment Replacements and Upgrades		166		-		-		-		208
Mobilising, Telephony and Bearers:	ESN Transition		-		-		-		50		-
Mobilising, Telephony and Bearers:	Session Initiated Protocol (SIP) Trunking		-		60		-		-		-
Mobilising, Telephony and Bearers:	Fireground Radios		-		45		-		-		-
Mobilising, Telephony and Bearers:	WAN		-		38		-		-		-
Major IT Systems and Schemes:	CFRMIS Upgrade		60		20		-		-		-
Major IT Systems and Schemes:	Website Redevelopment		-		-		40		-		-
Major IT Systems and Schemes:	Teams Conferencing		-		-		28		-		-
Ancillary Hardware and software:	Meeting Room Technology		31		-		-		-		-
Ancillary Hardware and software:	MDT Replacement		-		300		-		-		-
Ancillary Hardware and software:	Incident Command Training ICT Replacement		-		40		-		-		-
Ancillary Hardware and software:	PC replacement / expansion programme (⅕ per year over 5 years)		108		113		41		110		160
Ancillary Hardware and software:	Server replacement / expansion programme (⅕ per year over 5 yea		7		161		108		-		-
	ICT Hardware - As per P&P change Proposal		8		-		1		2		1
	UPS Installs at RET Stations		-		-		24		-		-
	Control System		-		-		-		-		1,700
TOTAL IT			**408**		**908**		**342**		**246**		**2,210**
OVERALL TOTAL			**4,353**		**8,178**		**7,480**		**6,055**		**6,370**

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APPENDIX B

North Yorkshire Police Fire and Crime Commissioner Fire and Rescue Authority

Reserves Strategy

The level of usable reserves of fire and rescue authorities is of particular interest at a national level and it is recognised that there is a need for greater transparency around reserves.

The National Framework

The National Framework which was published in May 2018 includes a section on reserves, the main components of which are:

- General reserves should be held by the fire and rescue authority and managed to balance funding and spending priorities and to manage risks. These should be established as part of the medium term financial planning process.

- Each fire and rescue authority should publish their reserves strategy on their website. The strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve that is held for each year. The reserves strategy should provide information for at least two years ahead.

- Sufficient information should be provided to enable understanding of the purpose for which each reserve is held and how holding each reserve supports the fire and rescue authority's Medium Term Financial Plan (MTFP).

- Information should be set out in a way that is clear and understandable for members of the public and should include:

    - How the level of general reserve has been set.
    - Justification for holding a general reserve larger than five percent of budget.
    - Whether the funds in each earmarked reserve are legally or contractually committed, and if so, what amount is committed and,
    - A summary of what activities or items will be funded by each earmarked reserve and how these support the fire and rescue authority's strategy to deliver good quality services to the public.

The information on each reserve should make clear how much of the funding falls into the following three categories:

- As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).
- Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.
- Funding for specific projects and programmes beyond the current planning period.

There is not a recognised formula for determining the level of reserves that a fire authority should maintain. It is up to each authority to consider the local circumstances and the potential issues/risks that may occur across the medium term. In determining the level of reserves for the Authority the risks and issues that need to be taken into account will include the following:

- The possibility of savings not being delivered; as levels of funding continue to be constrained, the need for annual reductions in spending is likely. This is likely to mean the identification of savings proposals carry a potentially greater risk of not being delivered.

- To provide cover for extraordinary or unforeseen events occurring: given the purpose of the fire and rescue service is to respond to emergency situations, there is always the potential for additional, unexpected and unbudgeted expenditure to occur.

- The commitments falling on future years as a result of capital plans and proposals to improve the asset base. Having reserves mitigates the impact on the revenue budget of borrowing and/or revenue contributions to capital and would support projects/programmes that will support revenue efficiencies.

- The risk on inflation, especially pay. There remains continued pressure on pay inflation to be in excess of those provided for in the MTFP.

Reserves Policy

The PFCC considers Reserves annually as part of the Budget Setting Process. The principles that underpin this area are as follows:

Reserves are maintained to:-

(a) Create a contingency to help cushion the impact of unexpected events or emergencies - the General Reserve.

(b) Build up funds (often referred to as earmarked reserves) to meet specific future requirements, including the smoothing out of peaks in costs and the effect of loss of external funding.

The level of reserves is taken into account when calculating the council tax requirement. This ensures a balanced budget position is maintained and enables regard to be given to affordability when considering future revenue requirements and capital programmes.

The reserves must be reported to the PFCC on a regular basis as part of budget and financial monitoring. Part of this exercise is to ensure continuing relevance and adequacy and to enable the Medium Term Financial Plan to be up-dated.

The actual level of reserves, earmarking and utilisation are considered when up-dating the MTFP and as part of its on-going review.

General Reserve

In setting the level of the General Reserve, consideration is given to the adequacy of financial control, the overall financial position, medium-term plans and strategic, operational and financial risks facing the PFCC. The level of the General Reserve is reviewed by the Police and Crime Commissioner on the advice of the PFCC's Chief Finance Officer having regard to these matters.

Key Principles are:-

(a) The General Reserve will not be used to meet on-going revenue items.

(b) The General Reserve may be used, on an exceptional basis, as a short-term option to balance the budget, particularly where major operations are experienced.

(c) The PFCC will aim to maintain the level of General Reserves at not less than 3% of the net revenue budget.

(d) The level of the General Reserve is re-assessed annually as part of the annual budget-setting process.

Reserves Forecast

The following schedule sets out the forecast movements on reserves over the life of the current medium term financial plan, it is important to recognise that whilst the schedule sets out the expected use of the current reserves, circumstances will change and all reserves will be reviewed at least annually. It is also important to recognise that there will undoubtedly be a need to create new reserves, in future years, to deal with risks that are currently unknown; the likelihood is that they will not reduce in overall financial terms as exactly planned and that while current reserves are spent, new reserves are likely to be needed to manage future risks.

	Balance March 2023 £000	Transfers In/Out 2023/24 £000	Balance March 2024 £000	Transfers In/Out 2024/25 £000	Balance March 2025 £000	Transfers In/Out 2025/26 £000	Balance March 2026 £000	Transfers In/Out 2026/27 £000	Balance March 2027 £000	Transfers In/Out 2027/28 £000	Balance March 2028 £000
Pensions, Pay & Price	**1,021**	-531	**490**	0	**490**	0	**490**	0	**490**	0	**490**
New Developments	**884**	-334	**550**	-318	**232**	0	**232**	0	**232**	0	**232**
Insurance	**80**	0	**80**	0	**80**	0	**80**	0	**80**	0	**80**
Recruitment	**175**	0	**175**	0	**175**	0	**175**	0	**175**	0	**175**
Hydrants	**100**	0	**100**	0	**100**	0	**100**	0	**100**	0	**100**
Collection Fund	**44**	-22	**22**	-22	**0**	0	**0**	0	**0**	0	**0**
RRM	**400**	-200	**200**	0	**200**	0	**200**	0	**200**	200	**400**
HO Grant - ESMCP/LTR	**129**	37	**166**	0	**166**	0	**166**	0	**166**	0	**166**
HO Grant - Protection Uplift	**456**	-225	**231**	-74	**157**	-148	**9**	0	**9**	0	**9**
Total Earmarked Reserves	**3,289**	**-1,275**	**2,014**	**-414**	**1,600**	**-148**	**1,452**	**0**	**1,452**	**200**	**1,652**
Earmarked Capital Reserve	**2,995**	**-932**	**2,063**	**-922**	**1,141**	**-309**	**832**	**-239**	**593**	**-90**	**503**
General Reserves	**1,075**	**0**	**1,075**	**70**	**1,145**	**40**	**1,185**	**40**	**1,225**	**45**	**1,270**
% of Net Budget Requirement	**3.4%**		**3.1%**		**3.0%**		**3.0%**		**3.0%**		**3.0%**
Total Usable Reserves	**7,359**	**-2,207**	**5,152**	**-1,266**	**3,886**	**-417**	**3,469**	**-199**	**3,270**	**155**	**3,425**

Why have these Reserves been established and what will they be used for?

General Contingency Reserves:

Pay, Price and Pensions Reserve
The reserve is forecast to have just under £0.5m in at the start of 2024/25, which provides scope to fund, in the short term, pay award in excess of those included within the budget. Each 1% equates to circa £290k. In addition to this the reserves provides some allowance for injury/medical pensions that are over and above the budgeted position and also mitigates the risk during the current period of higher inflation that some prices may be higher than estimated.

New Developments Reserve
This reserve has been predominantly committed to deliver the Fire Transformation Programme to the end of March 2025.

Insurance Reserve
The Police, Fire and Crime Commissioner operates on a self-insurance basis determined by the level of excess on the cover provided by external policies. This reserve is ring-fenced for insurance requirements only and cannot be used for other purposes, the level being calculated on the basis of historic budget impact of past claims.

Recruitment Reserve
This reserve has been established to fund the costs of Trainee Firefighters while in training and therefore unavailable for service delivery. This will help ensure that gaps in service are not required while training takes place.

Hydrant Reserve
While the work to repair, maintain and replace Fire Hydrants is the responsibility of Yorkshire Water the costs are the responsibility of the Fire Service. This leaves little control over the amount of work done, the timing of the work and the visibility and timeliness of charging. This reserve has therefore been established to deal with the variable nature of this area of cost.

Funding for Planned Expenditure over MTFP Reserves:

Collection Fund Reserve
£22k per year, for the next year, will be released to support the Road Safety Partnership.

Home Office Grant Funding – Protection
This specific funding reserves will be spent in line with the Grant terms and conditions from the Home Office. Should funds remain at the end then it is likely they would need to be returned to the Home Office.

Home Office Grant Funding – ESMCP
The Home Office have written to the Service to provide authorisation to use £400k of the funding that is currently sat within this Earmarked Reserves to accelerate the investment in the On-Call Service. This funding is therefore being released in line with this agreement. The Home Office provided the ESMCP funding in part to fund a Local Transition Resource also and therefore these reserves are being used to meet the costs of this specifically funded work.

The release of the £400k is subject to repayment and there are plans in place to ensure this happens in the final 2 years of this MTFP

Capital Reserve
The service has recognised the significant level of investment that it needs to make in terms of Estates, Equipment and Fleet, however constantly borrowing to do so is not sustainable and therefore a Capital Reserve has been established to help support the vital investment that is needed in these areas, and in shorter term Information Technology assets, while helping to manage borrowing and the costs associated with borrowing.

Report of the Chief Finance Officer of the PFCC to the Police, Fire and Crime Commissioner for North Yorkshire

27th February 2024

Status: For Decision

Medium Term Financial Plan (MTFP) 2024/25 to 2027/28 and Capital Plans 2024/25 to 2027/28 - Policing

1. Executive Summary

1.1 Purpose of the Report

This report asks the PFCC to agree the Budget proposals for 2024/25 and the Medium Term Financial Plan (MTFP) for 2024/25 – 2027/28 in line with the legal requirement to set a budget prior to the 1st March each year for the following financial year. It also asks the PFCC to agree the funding for the Capital Programme for 2024/25 and the indicative allocations for the period 2025/26 to 2027/28.

2. Recommendations

2.1 The PFCC is requested **to approve** the allocation of the £221,012k of revenue funding, that is forecast to be received by the PFCC in 2024/25, in the following areas:

- £1,520k to run the Office of the PFCC
- £7,500k for Commissioned Services and Community Safety Initiatives
- £700k for Asset Management Costs
- £207,450k to the Police Force
- £4,936k to the Capital Programme
- £1,094k from Earmarked Reserves

2.2 The PFCC is asked **<u>to note</u>** that the 2024/25 budget is based on the approved 3.99%, or £11.77, increase in the level of Band D precept for 2024/25.

2.3 The PFCC is asked **<u>to take cognisance</u>** of the Robustness of Estimates and Adequacy of Financial Reserves section included within this report.

2.4 The PFCC is asked **<u>to approve</u>** the Reserves Strategy that is attached at Appendix B

2.5 The PFCC is asked **<u>to approve</u>** that the Capital Programme is initially set at £12,017k, before any additional slippage from 2023/24, as set out at Appendix A, for 2024/25 and within that programme approve that:

- Indicative approval of the 2025/26 budgets as set out in Appendix A, and delegation of approval of any requests to pre-order against the 2025/26 budgets to the Commissioners Chief Finance Officer, up to 25% of each indicative budget. The 2025/26 Capital Budget will be submitted for formal approval at this time next year.

- Delegation to the Commissioners Chief Finance Officer to approve, where needed and appropriate, for the carry forward of any slippage from the approved 2023/24 Capital Programme into 2024/25.

2.6 The PFCC is asked **<u>to approve</u>** that if Projects/Business Cases that are already on the Change Pipeline are supported/approved at Change Board, and not novel, contentious or of significant public interest, then the PFCC CFO can approve the financial arrangements, where these are £100k per year or less.

2.7 The PFCC is asked **<u>to approve</u>** that quarterly updates on performance against both the revenue and capital budgets are reported to the PFCC via the Executive Board.

3. Planning and Funding Assumptions

3.1 <u>Police Funding Settlement 2024/25</u>

3.2 The 2024-25 Provisional Settlement was announced on 14 December in a written ministerial statement by the Minister of State for Crime, Policing and Fire, Chris Philp MP.

3.3 The Minister said "Today, the Government has set out the provisional police funding settlement...for the forthcoming financial year. For 2024-25 overall funding … will rise by up to £842.9m compared to the restated 2023-24…This funding settlement demonstrates that the Government remains committed to giving policing the resources they need to keep the public safe…The Home Office was only able to deliver this substantial funding increase by reprioritising funding from other programmes."

3.4 Full details of the Settlement can be found on the Home Office gov.uk pages.

3.5 Police Uplift Grant (PUP)

3.6 Prior to the provisional settlement, the sector was expecting a continuation of additional PUP funding for the recruitment of the final officers (towards the 20,000 total). The Ministerial Statement confirms ongoing funding of £425m to maintain officer numbers at (148,433 nationwide).

3.7 Within this funding £67.2m is "additional recruitment top-up grant" for forces that have agreed to recruit additional officers. The remaining £357.8m is ringfenced, allocated via formula funding shares and PCCs will be able to access this funding, as in previous years, by demonstrating that they have maintained their officer numbers.

3.8 The total PUP ringfence grant of £425m has increased by £150m, which was promised in the spending review, and therefore provides an even stronger incentive for officer numbers to be maintained. The actual terms of the grant will be released early next year.

3.9 The Police Uplift Grant for North Yorkshire has increased by £2,420k from £2,676k to £5,096k, with a requirement for the Force to achieve 1,665 Police Officers (Headcount) in 2024/25, this is 20 higher than the initial 2023/24 target.

3.10 The above funding includes £960k for these additional 20 Officers, however there is no guarantee that these 20 Officers will continue to be funded beyond 2024/25 and therefore the financial plans do not include these on a recurring basis.

3.11 Pay Award

3.12 During 2023/24 both Police Officers and Police Staff were awarded a 7% pay award with effect from the 1st September 2023. The additional cost of a 7% award (above a 2.5% assumption) was £515m across Policing, and this has been funded by the Government.

3.13 The ministerial statement highlights that £330m of this was given in-year in 2023-24 with a further £185m awarded for 2024/25. Any comparisons to last year's data now include the additional £330m that was distributed in year. This indicates that this funding is in the baseline for future spending reviews.

3.14 The Core Government Grant increase for North Yorkshire in 2024/25 is £1,792k, which is not enough to fund the additional costs of last year's pay award of £1,920k that fall into 2024/25 due to the way that the funding has been allocated.

3.15 Pensions Grant

3.16 From the 1st April 2024 the level of employers Pension Contributions into the Police Officer Pension scheme increases by 4.3% from 31% to 35.3%.

3.17 The Force estimate that the cost of this increase to be around £2,845k in 2024/25. The increase in the Pensions Grant to mitigate the impact of increased employer pension contributions is slightly higher due to the allocation method, at £3,481k, however this also includes a one-off amount of £308k to support the administration costs of a number of changes that are happening within Police Pensions.

3.18 Core Funding

3.19 The total amount of extra funding available for forces is £922m of which £298m would come from Council Tax however this is a local decision for each PCC.

3.20 The remaining £624m comes predominantly from an increase of £184m core funding to cover the pay award, £286m additional pension grant, £83m through additional PUP ringfenced grant and £67m from additional recruitment grant.

3.21 As set out above however, the North Yorkshire share of the £624m additional Government funding is all attached to additional costs for decisions already made. There is no funding with the Government settlement to support any inflationary pressures in 2024/25, no funding to support a pay award in 2024/25 and no funding to support any operational pressures/growth.

3.22 Based on the analysis released by the Government, Core Funding to PCC's has increased by 6% in 2024/25, this however assumes that all PCCs increase their Precept by £13.

3.23 The smallest increases in core funding were seen in London at 3.5%, with Lincolnshire (5.7%) and Surrey (5.9%) the only other areas projected to be below the average 6% increase.

3.24 Outside of the City of London, Northumbria is expected to see the highest increase in core funding of 7.6%.

3.25 The Government calculate the increase in North Yorkshire (including a £13 increase in Precept) would be 6.5%.

3.26 What does the Government expect to be delivered with this additional funding?

3.27 The Minister set out his expectations for this investment as follows:

3.28 "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.

3.29 We, therefore, expect policing to approach the 2024-25 financial year with a focus on this Government 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."

3.30 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.

3.31 <u>What does this mean for North Yorkshire in 2024/25 in terms of Funding?</u>

- An increase in of Core Police Grant of £1,792k
- An increase in Police Uplift Grant of £2,420k.
- An increase in the Police Pension Grant of £3,481k

3.32 Based on the precept being proposed, of £306.86 for a Band D property, then the overall impact on the Core funding for the organisation is set to increase by 6.6%, or just under £12.7m, as set out in the table below:

Overall Government and Local Revenue Funding				
	2024/25	**2023/24**	**(Increase)/Reduction**	**Year on Year Change**
	£000s	£000s	£000s	%age
Government Funding				
Police Grant	(55,512)	(54,390)	(1,122)	2.1%
RSG/National Non Domestic Rate	(33,258)	(32,589)	(669)	2.1%
Police Officer Uplift Grant	(5,096)	(2,677)	(2,420)	90.4%
Council Tax Freeze Grant	(2,152)	(2,152)	0	0.0%
Council Tax Support Grant	(5,746)	(5,746)	0	0.0%
Police Pensions Grant	(4,930)	(1,449)	(3,481)	240.2%
Government Funding Changes	**(106,695)**	**(99,002)**	**(7,693)**	**7.8%**
Impact of a 3.99%, £11.77 Band D Precept increase				
Net Surplus on Collection Funds	(751)	(484)	(267)	
Council Tax Requirement	(96,694)	(91,970)	(4,724)	5.1%
Total Local Funding	**(97,445)**	**(92,454)**	**(4,991)**	**5.4%**
Total Government + Local Funding	**(204,140)**	**(191,456)**	**(12,684)**	**6.6%**

3.33 <u>How does North Yorkshire compare to the National Picture?</u>

3.34 If each PCC increased their precept by £13, combined with tax base assumptions, there will be an additional £298m of resources for policing from council tax alone.

3.35 Due to historic differences in council tax the proportion that £13 represents can vary significantly between force areas. The £13 increase means that Northumbria's percentage increase is 8.5%, followed by the West Midlands at 7.2% whereas, £13 represents a 4.4% increase for North Wales and a 4.5% increase for South Wales and Gwent.

3.36 If every PCC takes the £13 precept, the weighted average band D police precept in England and Wales would be £278.38.

3.37 If all other PCC's increase their precept by £13 in 2024/25 then the £11.77 or 3.99% increase in North Yorkshire has the potential to be the **<u>lowest percentage increase in England</u>**. This follows on from the PFCC setting the 2nd lowest percentage increase in Precept nationally in 2023/24.

3.38 North Yorkshire is likely to have the 5th highest Police Precept in England (and 9th highest in England and Wales) in 2024/25. The Police Precept in North Yorkshire will be around **<u>£28.50, or just over 10%, higher than the average</u>** in England and Wales.

3.39 This £28.50 is the equivalent of £9m more funding available for policing in North Yorkshire than if there was an average precept level in North Yorkshire.

3.40 The proportion of funding raised through council tax differs significantly between force areas. Northumbria's Council Tax makes up 19% of their total funding, followed by West Midlands at 20.3% and Merseyside at 22.9%.

3.41 Conversely, Surrey has 54.6% of their funding coming from Council tax, followed by Dyfed Powys at 51.3% and North Wales at 50.2%. On average, 34.3% of budgets are made up from Council tax, which is broadly in line with last year.

3.42 <u>Government Funding for 2025/26 and beyond</u>

3.43 2024/25 is the final year of the current Spending Review period and therefore there is very little formal guidance for future plans.

3.44 The current plan has therefore assumed that Government Funding will continue to increase by CPI and that this will be 2%.

3.45 The current plan also assumes that PFCC's will continue to be provided with precept limits set via a monetary, instead of a percentage, increase and that increases of at least £12 per year will be possible.

3.46 The current plan does not consider any changes to funding that may occur as a result of the PFCC becoming part of the Mayoral Combined Authority in May 2024.

3.47 <u>Top Slices</u>

3.48 In 2024/25 reallocations total £1,038m, a £76m reduction over 2023-24 (£1,114m). Reallocations were also reduced by £260m between 2022-23 and 2023-24.

3.49 This year, the biggest reductions to funding were a £25.6m decrease in police technology programmes, followed by a £19.5m reduction in national policing capabilities and a £16m reduction in special grant. Crime reduction capabilities were dropped completely, saving £18.4m.

3.50 Conversely, there was a significant rise in capital reallocations, increasing by £23.8m.

3.51 <u>Council Tax Legacy Grant</u>

3.52 The Council Tax Legacy Grants relating to Council Tax Freeze grants from 2011-12, 2013-14, 2014-15 and 2015-16 as well as Local Council Tax Support (LCTS) funding remains separately identifiable in 2024-25. These have again remained flat cash settlements and therefore take no account of any changes for inflation or local need since they were awarded and is another area where additional costs are having to be 'absorbed'.

3.53 <u>Counter Terrorism</u>

3.54 The Minister announced a total of £1,017.5m for Counter Terrorism (CT) policing in 2024-25, a 2% increase in cash terms on 2023-24. PCCs will be notified separately of force-level funding allocations for CT policing, which will not be made public for security reasons.

3.55 <u>Ministry of Justice Grants</u>

3.56 The PFCC expects to receive £1,514k from the Ministry of Justice in 2024/25 to deliver Victims Services, however this has yet to be confirmed.

3.57 This is almost £430k higher than the Core Grant and reflects successful bids by the PFCC for additional funding.

3.43 <u>Crime Programme Funding</u>

3.44 In addition to the usual Core Funding and Specific Grant funding announcements, the Government also set out a number of other funding streams that would be available to PCCs in 2024-25 for headline crime programmes.

3.45 With the Government stating that "Despite difficult decisions across all budgets, we have sought to protect those tried-and-tested programmes that support PCCs to target activity and deliver an overall reduction in crime. In total this is a continued investment of over £200 million in 2024-25.

- £92.8 million to support activity designed to combat anti-social behaviour and serious violence.
- £15 million on Safer Streets Round 5, to supplement the funding already provided for 2023-24.
- £46 million to continue the County Lines Programme and Project Adder
- £47 million to continue to support the work of Violence Reduction Units"

3.46 <u>What does this mean for North Yorkshire?</u>

3.47 The PFCC has been allocated the following in 2024/25:

- £1m under the Government's Anti-social Behaviour (ASB) Action Plan, to ensure an enhanced uniformed presence in ASB hotspot areas.

- £0.5m to enable the roll out of immediate justice more widely across England and Wales
- £0.35m to continue/finalise those schemes which began in 2023/24 as part of the Safer Streets programme – which is "the Government's flagship crime prevention programme, helping to drive down crime and anti-social behaviour, ensuring the public is better protected."

3.58 **Precept**

For the second year in a row over 50% of the Net Budget Requirement within North Yorkshire is now funded by the local precept. This provides more of a cushion to cuts in government grants, than in most Police Force areas and the ability to generate additional funding locally when Government Funding is constrained.

3.59 However in times where Government Funding is growing at a quicker rate than precept North Yorkshire will tend to benefit less than most Police Force Areas.

3.60 The Localism Act 2011 includes powers to introduce arrangements for council tax referendums. The Police Funding Settlement set out that PCC's would be able to increase Band D bills by as much as £13 before a referendum is required in 2024/25.

3.61 Consultation was undertaken in relation to the option of increasing the precept in 2024/25 and in total 1,683 responses were received via the open online survey and a further 996 interviews over the telephone. The open survey was published on the PFCC website and promoted widely via social media.

3.62 The public were asked the following question:

3.63 North Yorkshire Police has a budget of £201 million – around 46 per cent comes from the precept on your council tax.

3.64 To provide a similar level of service to now, they think they will need around an extra £12m due to salary increases and the rising cost of fuel, utilities and general cost increases.

3.65 The Government are expected to say that Commissioner Zoë can raise the police precept by £15 from April – that would be an increase of 5.1%, an extra 29 pence per week for an average Band D property. Even this would only raise £4.7m of that extra demand

3.66 The following options are based on an average Band D property currently paying £295.09 each year for policing.

3.67 How much more would you be prepared to pay per year, through your council tax for policing in North Yorkshire and York?

- No more than I pay now – a precept freeze
  This would be a cut to the police budget due to inflation and current service delivery could not maintained.

- Up to £10 a year more (83 pence per month), an increase of 3.4%
  This would raise around £3.1million, however is significantly below inflation and would likely lead to reductions in current levels of service delivery unless savings could be delivered.

- Up to £15 a year more (£1.25 per month), an increase of 5.1%
  This would raise around £4.7million, however is significantly below inflation and would likely lead to reductions in current levels of service delivery unless savings could be delivered.

- Up to £20 a year more (£1.67 per month), an increase of 6.8%
  This would raise around £6.2 million, is broadly in line with the organisation's inflationary pressures and would lead to no reductions in current levels of service delivery.

3.68 A summary of the results is shown below:

	Total (n=2,678)	Telephone (n=995)	Online (n=1,683)
No more than I pay now a precept freeze	**39%**	49%	33%
Up to £10 a year more (83 pence per month), an increase of 3.4%	**20%**	23%	19%
Up to £15 a year more (£1.25 per month), an increase of 5.1%	**20%**	18%	22%
Up to £20 a year more (£1.67 per month), an increase of 6.8%	**20%**	11%	26%
TOTAL who support an increase of at least £10	**61%**	51%	67%

3.69 Combined results (online and telephone) from the consultation show the majority (61%) support an increase of £10 or more in the policing precept

3.70 However based on a number of factors, including the financial needs set out by the Force an increase of £11.77 (3.99%) was proposed to the Police, Fire and Crime Panel, and unanimously supported.

3.71 **<u>For the purposes of planning, the balanced plan that is set out within this paper assumes the precept increases at £12 per annum going forward</u>**.

3.72 Over the last 10 years the calculated number of Band D properties within North Yorkshire has increased by 1.3% per year which the PFCC and policing has benefited from in terms of additional funding. This trend has broadly continued in 2024/25 with an increase of 1.1%.

3.73 The number of Band D properties within North Yorkshire has increased by 3,441 to 315,107. This increase generates over £1m of additional funding in comparison to the Tax Base from 2023/24.

3.74 In addition to the continued increase in the tax base, the overall collection of Council Tax returned to normal after a 3 year period impacted by the pandemic.

3.75 The overall collection fund surplus reported across North Yorkshire equated to £751k, this continues a trend from the last 2 years where the surplus was also in excess of £600k.

3.76 <u>MTFP Assumptions</u>
When the 2023/24 budget was set in February 2023 the forecasts were underpinned by the following assumptions:

- Pay Awards:
    - 2023/24 – 4.0% increase
    - 2024/25 – 2.0% increase
    - 2025/26 – 2.0% increase

- Precept: Increases of:
    - 2023/24 – 4.99% or £14.03
    - 2024/25 – £10 or 3.39%
    - 2025/26 – 1.99%

- Tax Base increases of:
    - 2023/24 – 1.2%
    - 2024/25 – 1.2%
    - 2025/26 – 1.0%

- Government Grants increases of:
    - 2024/25 – 1.7%
    - 2025/26 – 2.0%
    - 2026/27 – 2.0%

- Impact of Funding Formula review – Nil

3.77 Clearly much has changed in the last year and therefore in line with good planning our assumptions remain under review and are updated with the best information available. It is expected that the MTFP for 2024/25 and beyond will assume the following:

- Pay Awards:
  - 2024/25 – 2.5% increase
  - 2025/26 and beyond – 2.0% increase

- Precept: Increases of:
  - 2024/25 – £11.77 or 3.99%
  - 2025/26 and beyond – £12 per annum

- Tax Base increases of:
  - 2024/25 – 1.1%
  - 2025/26 and beyond – 1.4% per annum

- Government Grants increases of:
  - 2025/26 and beyond – 2.0%

- Impact of Funding Formula review – Nil

3.78 Specific Grants, Other Income and Partnership Fees and Charges
These sources of income and funding are forecast to provide between £20.1m and £26.9m across the life of the plan.

3.79 Based on these revised assumptions, and the information received and forecast around other areas of funding, then the entire funding expected to be available to the PFCC for the next 4 years, in comparison to 2023/24, is as follows

	Actual Budget 2023/24	**Proposed Budget 2024/25**	**2025/26**	**2026/27**	**2027/28**
Core Funding	£000s	£000s	£000s	£000s	£000s
Government Grant	(83,766)	(88,770)	(90,546)	(92,357)	(94,204)
Council Tax Precept	(92,454)	(97,445)	(102,482)	(107,796)	(113,239)
Council Tax Freeze Grant	(2,152)	(2,152)	(2,152)	(2,152)	(2,152)
Council Tax Support Grant	(5,746)	(5,746)	(5,746)	(5,746)	(5,746)
Funding for Net Budget Requirement	**(184,118)**	**(194,113)**	**(200,925)**	**(208,051)**	**(215,341)**
%age Change in Net Budgetary Requirement	3.3%	5.4%	3.5%	3.5%	3.5%
Other Funding					
Specific Grants	(8,791)	(17,733)	(11,737)	(11,738)	(11,738)
Partnership Income/Fees and Charges	(8,465)	(9,166)	(8,499)	(8,376)	(8,336)
Total Funding	**(201,374)**	**(221,012)**	**(221,162)**	**(228,165)**	**(235,415)**
%age Change in Funding	5.2%	9.8%	0.1%	3.2%	3.2%

3.80 2024/25 is the 6th year of significant investment back into Policing. **The level of funding available within North Yorkshire, at a Net Budget Requirement level, has increased by £48.8m (or 34%) in the past 6 years**.

3.81 The position is even better from **Total funding level perspective, with increases of £64m (or over 41%) across the same 6 year period.**

4. Expenditure Plans

4.1 In setting the budget for 2024-25 the PFCC is asked to make decisions on how the overall funding discussed in Section 3 is allocated. The PFCC is asked to provide funding/budgets to the areas discussed in the following sections:

4.2 Office of the PFCC

4.3 The proposed budget in this area for 2024/25 is £1,520k which is £85k higher than 2022/23.

4.4 This reflects the revised staffing structure within the Office and also the impact of the 7% pay awards for 2023/24 and the forecast pay award for 2024/25.

4.5 Community Safety and Victims and Witnesses Commissioning

The role and responsibilities of the PFCC is wider than Policing and this has been acknowledged with the addition of responsibilities around Community Safety, Victims and Witnesses services and Complaints.

4.6 The current assumptions within the financial plans include the expectation that the PCC will receive £428k more than the Ministry of Justice 'core' allocations (of £1,085k) for 2024/25.

4.7 The OPFCC has been successful is bidding for Safer Streets Funding in each of the last 3 years. The bid for 2023/24 extended funding into 2024/25, therefore £350k of already agreed funding and expenditure is included within the 2024/25 budget

4.8 As mentioned earlier, the PFCC has been allocated additional funding for the following in 2024/25:

- £1m under the Government's Anti-social Behaviour (ASB) Action Plan, to ensure an enhanced uniformed presence in ASB hotspot areas.
- £0.5m to enable the roll out of immediate justice more widely across England and Wales

4.9 These expenditure budgets have been added to the Commissioning Budgets while plans and proposed are agreed on how these funds will be invested.

4.10 Other opportunities may become available during the year however having the resources available to pursue these opportunities is likely to be a challenge and will need to be considered as part of any future bids.

4.11 The indicative budget for these areas are set out in the table below:

	2023/24	2024/25	2025/26	2026/27	2027/28
Commissioning and Partnerships	£000s	£000s	£000s	£000s	£000s
Supporting Victims	2,625	1,987	1,539	1,491	1,491
Community Safety	1,197	1,197	1,197	1,197	1,197
Street Triage and Mental Health Services	474	474	474	474	474
Youth Justice	375	375	375	375	375
Child Sexual Assault Services	315	315	315	315	315
Safeguarding Communities	246	246	246	246	246
SARC Services	191	191	191	191	191
Community Fund	250	250	250	250	250
Safer Streets	446	355			
ASB Hotspot Policing		1,000			
Immediate Justice		500			
Staff Pay	582	609	613	616	632
Serious Violence Duty		261			
Child and Young People affected by Domestic Abuse		210	320	330	340
Women Centre Investment and Wider Inflation		100	100	100	100
Non-Pay	73	73	73	73	73
Total Costs	**6,774**	**8,143**	**5,693**	**5,658**	**5,683**
Income	(643)	(643)	(643)	(643)	(643)
Total Net Budget	**6,131**	**7,500**	**5,050**	**5,015**	**5,040**

4.12 Asset Management

4.13 When investment in Capital is funded through borrowing there is a requirement to make a charge against the revenue budget to reflect the use of the asset over its useful life. This charge in called a Minimum Revenue Provision.

4.14 Furthermore when this borrowing is funded via a loan then there are also interest charges incurred.

4.15 The combination of these two areas are factored into the Asset Management budget which is estimated to be £700k for 2024/25. This is forecast to increase in future years given the plan to fund future investments in Estates from borrowing, this is set out within the current capital plans.

5. Police Force

5.1 The vast majority of the funding available to the PFCC will be provided to the Chief Constable, this provides the budgetary constraints in which the PFCC expects the Force to work within, in delivering against the Police and Crime Plan.

5.2 The PFCC tries to provide a stable financial platform for the Force to work to and within, despite the significant level of unknowns around various areas of future funding. The aim of this approach is to support and enable good strategic planning, decision making and ultimately service delivery by the Force.

5.3 The Force have pulled together detailed financial plans which are provided in a separate report, which is also on today's agenda however a summary of the finances is included below:

	Actual Budget 2023/24	Proposed Budget 2024/25	2025/26	2026/27	2027/28
Police Force Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Pay					
Police Pay	96,951	106,717	107,990	110,004	111,367
Police Overtime	2,904	2,613	3,331	4,085	3,708
PCSO Pay (incl Overtime)	6,880	6,770	8,100	8,936	9,122
Staff Pay (incl Overtime)	44,875	47,390	48,518	49,481	50,512
Pay Total	**151,610**	**163,490**	**167,939**	**172,506**	**174,709**
Non-Pay Budgets					
Other Non Salary	2,390	4,731	2,576	2,559	2,555
Injury and Medical Police Pensions	4,051	4,475	4,514	4,505	4,505
Premises	5,722	5,561	5,674	5,787	5,900
Supplies and Services	23,779	26,079	25,908	26,280	27,394
Transport	3,523	3,114	3,159	3,198	3,262
Non-Pay Total	**39,465**	**43,960**	**41,831**	**42,329**	**43,616**
Total Planned Force Expenditure	**191,075**	**207,450**	**209,770**	**214,835**	**218,325**
%age Change in Expenditure	8.0%	8.6%	1.1%	2.4%	1.6%
Average Employee Numbers	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,645	1,660	1,645	1,645	1,645
PCSOs	177	163	192	208	208
Police Staff	1,142	1,203	1,191	1,189	1,189

5.4 **The Force are being provided with an increase in their revenue funding of almost £16.4m, or 8.6%**.

5.5 This significant increase in funding follows on from significant increases over the last 5 years too. **In 2024/25 the Force will therefore have over £56m, or over 43%, more Revenue funding available than it had in 2018/19.**

5.6 This arguably puts the Force in a very fortunate position from a financial perspective in comparison to other Police Force Areas, for example:

- **There are no Forces in the country who have more money than North Yorkshire to deal with less Police Recorded Crime**.
- **There are however 10 Forces who have less money to deal with more Police Recorded Crime.**
- As can be seen from the table below even within NYPs most similar group of Forces then North Yorkshire would appear well funded relative to Police Recorded Crime levels. For example, based on Net Revenue Expenditure North Yorkshire will have over £30m more than Suffolk, however Suffolk has over 3,500 more Police Recorded Crime incidents to deal with.

5.7

NYP MSG Police Force Areas	2024/25 Total Income, £k	Police Recorded Crime in 22/23	Funding per Police Recorded Crime	Police Officer Uplift Target	PRC per Police Officer	999Calls in 12 months to Dec-23
Lincolnshire	163,893	58,808	2,787	1,186	50	117,234
Suffolk	171,100	52,109	3,284	1,425	37	122,609
North Yorkshire	203,388	49,452	4,113	1,664	30	114,544
North Wales	208,620	63,485	3,286	1,727	37	117,906
Norfolk	221,735	67,213	3,299	1,935	35	132,662
West Mercia	298,012	94,908	3,140	2,503	38	189,720
Devon & Cornwall	428,527	104,753	4,091	3,655	29	313,132
National Totals	**16,357,494**	**5,514,364**	**2,966**	**148,433**	**37**	**11,687,181**

5.8 Outside of London, the PFCC will be providing North Yorkshire Police with the **2nd highest level of funding per Police Record Crime in the country**.

5.9 This will be **almost 40% more funding per Police Recorded Crime** than the average within England and Wales.

5.10 In addition to this, the funding provided by the PFCC to North Yorkshire Police, which will fund (above the) 1,664 Police Officers in 2024/25, will result in North Yorkshire Police being able to have sufficient funding to have the **3rd lowest level of Police Recorded Crime per Police Officer in the country (excluding London)**.

5.11 The 2024/25 Budget from the Force includes further significant investment into the Force Control Room of £1m. The recently published Government data on the number of 999 calls for the year ended Dec-23 showed that **North Yorkshire continue to have the 8th lowest number of 999 calls in England and Wales.**

5.12 If this is cross-referenced with funding, as with Police Recorded Crime, **there are no Forces within England and Wales who have more overall funding that North Yorkshire to deal with less 999 calls.**

5.13 There are however 7 Police Forces who receive more 999 calls than North Yorkshire but have less overall funding.

5.14 This is perhaps another indicator of how well funded the Force is overall.

5.15 **Areas of Note within the Force's Plans**

5.16 **Police Officers** – the PFCC was provided with a letter than provided an overview from the Home Secretary and the Minister of State for Crime, Policing and Fire of both the National Policing financial settlement for 2023/24 and the local impact for North Yorkshire.

5.17 Within that letter the Police Officer Uplift Target for North Yorkshire is stated as 1,664 – with an indication that this is the level of Police Officers to be maintained in 2024/25.

5.18 The new grant conditions will retain elements of the existing terms in 2023-24. Every officer below a force's maintenance headcount (1,644 for North Yorkshire) will result in the ringfence share reducing by £80,000 if missed at both data points (£40k per officer at each data point) down to a threshold of 1.5% below the total maintenance headcount, or 30 officers - whichever is greater. This threshold differs from 2023-24 when the threshold was 1% or 20 officers. For example, if a force is two officers below its maintenance headcount at both September, and at March, ringfenced funding would reduce by £160k.

5.19 As with this year, reducing officers beyond this threshold level would mean a force will not be eligible for its full share of the ringfence grant. Access to ringfence funding shares will be based upon headcount levels recorded at data collection points on 30 September 2024 and 31 March 2025 and paid in January and July 2025 following the publication of police workforce statistics.

5.20 The current plans of the Force are that they will be more than the Uplift Target by 16 at the end of September, and around 36 by the end of March 2024, this should ensure that the Uplift Target is easily achievable.

5.21 The Home Office have also indicated that there will also be an opportunity for further additional recruitment in 2024-25, up to an additional 625 officers in total above original force allocations.

5.22 The current recruitment plans are built with this additional recruitment in mind and therefore should the Force be successful with any bid for additional resources they will be well placed to deliver.

5.23 Full details of the additional recruitment scheme for 2024-25 were communicated to in February 2024 and a bid for additional funding has been made.

5.24 **Staff** – To be able to balance the budget for 2024/25 the Force have factored into their planning assumptions that they will have 100 staff vacancies on average during 2024/25. This has reduced the staff pay budget by circa £4m.

5.25 This level of vacancies is 26 higher than the budgeted position for 2023/24. The budget from the Force is therefore based on being able to afford to have 1,203 FTE Police Staff throughout 2024/25 (after allowing for 100 vacancies).

5.26 The Force report that they have around 1,095 FTEs at the end of December 2023. Given the significant level of staff post growth that has been factored into the Force budget for 2024/25 then the Force are likely to start 2024/25 with around 200 staff vacancies (depending on starters/leavers in the last 3 months of 2023/24), which would be around 100 FTE vacancies more than factored into the budget.

5.27 **<u>It is very likely that this budget area will start 2024/25 underspending.</u>**

5.28 As mentioned earlier in the report the PFCC is providing sufficient funding to the Force to be very well resourced in terms of Police Officer numbers relative to Police Recorded Crime levels. <u>In a similar vein the Force has a budget for 1,203 FTE staff versus 1,660 FTE Officers – this is a ratio of over 70% staff to officers.</u>

5.29 The average across policing was recently shown to be 54% - this is another example of the significant level of resources that the PFCC is providing to the Force.

5.30 **<u>PCSOs</u>** - To reflect the lower levels of PCSOs now employed by the Force, the budget for 2024/25 for PCSOs has been set at an average of 163 PCSOs, with an expectation within the financial plans that the Force will increase PCSO numbers to 208 FTEs by 2026/27.

5.31 As at the 31st December 2023 the Force report having 160 FTE PCSOs and a forecast that they will only have 147 FTEs by the end of 2023/24.

5.32 As with Staff this are of the budget is likely to start underspending from the beginning of the financial year and therefore it is important that the Force start the recruitment process for PCSOs as soon as possible otherwise this area of service delivery will continue to be under resourced relative to the finances available.

5.33 **<u>As with the other areas of staffing it is vital, not just in terms of financial planning but perhaps more importantly in terms of service delivery and improvement, that the Force have clearly articulated plans on how they are going to resource their organisation to deliver against the challenges that they have and the Police and Crime Plan.</u>**

6. Overall Financial Summary

6.1 The table below shows the current projected position of the overall finances available to the PFCC, however this is based on a significant number of assumptions that have been discussed and set out within this report.

	Actual Budget 2023/24	Proposed Budget 2024/25	2025/26	2026/27	2027/28
Core Funding	£000s	£000s	£000s	£000s	£000s
Government Grant	(83,766)	(88,770)	(90,546)	(92,357)	(94,204)
Council Tax Precept	(92,454)	(97,445)	(102,482)	(107,796)	(113,239)
Council Tax Freeze Grant	(2,152)	(2,152)	(2,152)	(2,152)	(2,152)
Council Tax Support Grant	(5,746)	(5,746)	(5,746)	(5,746)	(5,746)
Funding for Net Budget Requirement	**(184,118)**	**(194,113)**	**(200,925)**	**(208,051)**	**(215,341)**
%age Change in Net Budgetary Requirement	3.3%	5.4%	3.5%	3.5%	3.5%
Other Funding					
Specific Grants	(8,791)	(17,733)	(11,737)	(11,738)	(11,738)
Partnership Income/Fees and Charges	(8,465)	(9,166)	(8,499)	(8,376)	(8,336)
Total Funding	**(201,374)**	**(221,012)**	**(221,162)**	**(228,165)**	**(235,415)**
%age Change in Funding	5.2%	9.8%	0.1%	3.2%	3.2%
Office of the PCC Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Total Planned Expenditure	**1,435**	**1,520**	**1,590**	**1,630**	**1,665**
Commissioned Services	£000s	£000s	£000s	£000s	£000s
Total Planned Expenditure	**6,131**	**7,500**	**5,050**	**5,015**	**5,040**
	£000s	£000s	£000s	£000s	£000s
Asset Management	**640**	**700**	**850**	**970**	**1,165**
Police Force Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Pay					
Police Pay	96,951	106,717	107,990	110,004	111,367
Police Overtime	2,904	2,613	3,331	4,085	3,708
PCSO Pay (incl Overtime)	6,880	6,770	8,100	8,936	9,122
Staff Pay (incl Overtime)	44,875	47,390	48,518	49,481	50,512
Pay Total	**151,610**	**163,490**	**167,939**	**172,506**	**174,709**
Non-Pay Budgets					
Other Non Salary	2,390	4,731	2,576	2,559	2,555
Injury and Medical Police Pensions	4,051	4,475	4,514	4,505	4,505
Premises	5,722	5,561	5,674	5,787	5,900
Supplies and Services	23,779	26,079	25,908	26,280	27,394
Transport	3,523	3,114	3,159	3,198	3,262
Non-Pay Total	**39,465**	**43,960**	**41,831**	**42,329**	**43,616**
Total Planned Force Expenditure	**191,075**	**207,450**	**209,770**	**214,835**	**218,325**
%age Change in Expenditure	8.0%	8.6%	1.1%	2.4%	1.6%
Total Expenditure Budgets	**199,281**	**217,170**	**217,260**	**222,450**	**226,195**
	£000s	£000s	£000s	£000s	£000s
(Surplus)/Deficit before Reserves/Capital	**(2,093)**	**(3,842)**	**(3,902)**	**(5,715)**	**(9,220)**
Planned Transfers to/(from) General Fund	(1,000)				1,000
Contribution to Capital Programme	3,938	4,936	4,139	6,015	8,220
Planned Transfers to/(from) Earmarked Reserves	(845)	(1,094)	(237)	(300)	0
Net (Surplus)/Deficit After Reserves	**0**	**(0)**	**0**	**(0)**	**0**
General Reserves	£000s	£000s	£000s	£000s	£000s
General Fund Balance b/f	6,602	5,602	5,602	5,602	5,602
Proposed (Use of)/Contribution to General Fund	(1,000)	0	0	0	1,000
General Fund Balance c/f	**5,602**	**5,602**	**5,602**	**5,602**	**6,602**
Average Employee Numbers	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,645	1,660	1,645	1,645	1,645
PCSOs	177	163	192	208	208
Police Staff	1,142	1,203	1,191	1,189	1,189
Assumptions					
Staff Pay Increases	4.0%	2.5%	2.0%	2.0%	2.0%
Police Pay Increases	4.0%	2.5%	2.0%	2.0%	2.0%
Non Pay Inflation	calculated	calculated	2.0%	2.0%	2.0%
Precept Increases	5.0%	4.0%	3.9%	3.8%	3.6%
Government Grant Increases	0.3%	6.0%	2.0%	2.0%	2.0%

6.2 From an overall income perspective, the PFCC is now expected to receive £16.3m more income in 2024/25 than was being forecast just 12 months ago, and £19.6m more income than was budgeted to be received in 2023/24.

6.3 In any 'normal' year this would be fantastic news and would enable significant investment and growth of the organisation.

6.4 However this money needs to cover the following increases in pay and non-pay costs.

Forecast additional Pay Costs	Forecasts 2024/25
	£000s
Impact of 23/24 Pay Awards @ 7% in 24/25	4,730
Increase in Employer Pension Contributions rate to Office Pension Scheme	2,845
Assume 2.5% Pay Awards from Sept-24	2,390
Increase Police Officers to 1,660 FTEs in 24/25	830
Investment in Force Control Room	1,065
Combination of multiple changes	20
Total Forecast Additional Pay Costs	**11,880**
Impact of Inflation, Specifc additional income linked expenditure and Pressures on Non-pay Budgets:	**Forecasts 2024/25**
	£000s
Other Non Salary	2,340
Injury and Medical Police Pensions	425
Estates	(160)
Supplies and Services	2,300
Transport	(410)
Commissioned Services Growth	1,370
Other Inflationary pressures	145
Total Forecast Additional Inflationary Non-Pay Costs	**6,010**
Movement on Reserves and Capital	**1,750**
Potential Additional Costs	**19,640**

6.5 Based on the plans and assumption outlined within this report and some use of reserves, that are discussed later in the report then the organisation can demonstrate a balanced budget for the next 4 years.

6.6 It is however vital to keep in mind that there will be challenges to this balanced plan, there are a number of risks that could impact significantly on the currently forecasted balanced position and there are undoubtedly many things that the organisation will have to deal with, that are currently unknown. Therefore the constant search for savings and efficiencies will need to continue to provide future flexibility from a financial perspective.

7. Capital Financing and Expenditure

7.1 The assets owned by the PFCC are a vital platform for the delivery of the Police and Crime Plan, with the overall purpose of the capital plan to provide sufficient funding to renew the asset base of the organisation, informed by condition deficiency surveys, 'fit for purpose' reviews, equipment replacement programmes, business continuity requirements and invest to save expenditure.

7.2 The Force have put forward Capital plans for the 4 year period to 2027/28 that total just over £43m, with over £5.6m of this spend slipped from 2023/24.

7.3 The constant slippage and underspending on the Capital Programme has been highlighted for a number of years now and yet continues. The Force have now put in place a new Planning Process and have new people in a number of the key roles that oversee much of this area – it should therefore be expected that the performance in 2024/25 should be much better managed, forecast and reported from a financial perspective.

7.4 It is expected that the Force will robustly manage the Capital Programme and report regularly to the PFCC via Executive Board as set out in the recommendations to this report.

7.5 The current Capital Plans, which will continue to be subject to review, development and refinement over the coming years, are set out below:

Capital Financing and Expenditure					
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	£000s	£000s	£000s	£000s	£000s
Earmarked Reserve/Funding b/f	**17,103**	**13,985**	**10,660**	**6,181**	**6**
Capital Receipts - vehicles and PPE	500	525	550	550	550
Capital Receipts from Estates Strategy	465	0	350	1,090	0
Contributions (to)/from Revenue	4,909	4,936	4,139	6,015	8,220
Borrowing	1,911	4,387	2,759	639	1,042
Projected in-year funding available	7,785	9,848	7,798	8,294	9,812
Capital and Project Plans					
ICT	3,372	4,377	2,916	8,826	3,565
Fleet	4,099	2,810	4,418	3,195	3,997
Estates	1,911	4,387	1,484	639	1,042
Other Rolling Programmes and Schemes	617	368	338	302	392
Other Schemes	396	75	12	47	8
Total Agreed Programme	10,395	12,017	9,169	13,009	9,004
Change Pipeline	508	1,155	3,109	1,460	211
Earmarked Reserve/Funding c/f	13,985	10,660	6,181	6	603

7.6 There is a significant amount of work that is required around the Capital Programme so that the Force can make the most of the funding that has been made available to them and so that they can plan with confidence for the significant number of schemes and programmes that they have indicated that are on the horizon and on the Change Pipeline.

7.7 Change Pipeline

7.8 Beyond the 'Agreed' Capital Programme, the table above also allocates, indicatively, funding for the schemes that the Force have set out and costed within their Change Pipeline.

7.9 This shows a total ask of:
- 2024/25 - £1,155k
- 2025/26 - £3,109k
- 2026/27 - £1,460k

7.10 A combined Capital Programme and Change Pipeline that totals almost £50m of spend across 4 years once again seems very ambitious and a significant challenge to deliver given the experiences of delivery in these areas over at least each of the last 9 years.

7.11 The continued reporting into Executive Board is a reflection of the continued need for additional oversight and governance of this.

7.12 It is also really important to recognise how this is going to be funded and therefore why it is vital that these plans are fully understood, realistic, deliverable and align to both the Police and Crime Plan and the wider organisational need.

7.13 The funding for this investment is set to come from the following areas:

- £23.3m of contributions from Revenue over 4 years
- £3.6m from new Capital Receipts
- £13.4m out of Earmarked Capital Reserves and Capital Receipts Reserve across 4 years
- £8.8m of additional borrowing to fund Estates across 4 years.

7.14 As highlighted last year these plans are therefore 'tying up' significant amounts of future financial resources within the financial plans. If these plans therefore fail to be delivered/deliverable, poorly costed and/or simply not needed in the future then a significant amount of lost opportunities might be missed.

8. Reserves

8.1 As at the end of 2022/23 the PFCC had Usable Reserves of £21.4m, plus £8m in the Capital Receipts Reserve. The main reserves held at that point were for the following reasons:

- General Reserves - £5.6m
- Funding for projects within the financial plans - £12.4m
- General contingency and risk Reserves - £1.4m
- Capital Receipts Reserve - £8.0m

8.2 The PFCC has a separate Reserves Strategy, which is in line with the requirement of the Government, which sets out the details of all reserves, what they are held for and how they will be used in the future. This is attached at Appendix B to this report.

8.3 It is worth reflecting that reserves are forecast to reduce in every year of the financial plan from almost £30m at the start of 2023/24 to around £12m by the end of 2027/28.

8.4 This will only happen if the Capital Programme is delivered in line with the plan set out within this report.

8.5 The expected movements on all reserves held by the PFCC will be kept under review in line with the development of the MTFP, current projections are included within the table below:

	Balance at 31 March 2023 £000	Tranfers In 2023/24 £000	Tranfers Out 2023/24 £000	Balance at 31 March 2024 £000	Tranfers In 2024/25 £000	Tranfers Out 2024/25 £000	Balance at 31 March 2025 £000	Tranfers In 2025/26 £000	Tranfers Out 2025/26 £000	Balance at 31 March 2026 £000	Tranfers In 2026/27 £000	Tranfers Out 2026/27 £000	Balance at 31 March 2027 £000	Tranfers In 2027/28 £000	Tranfers Out 2027/28 £000	Balance at 31 March 2028 £000
Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.																
PFCC Reserve	471			471			471			471			471			471
Capital Reserve	9,051	4,909	(8,994)	4,966	4,936	(8,785)	1,117	4,139	(5,256)	0	6,015	(6,015)	(0)	8,220	(8,173)	47
Firearms Licence Reserve	539		(30)	509		(30)	479		(30)	449		(30)	419		(30)	389
Investments Reserve	219			219			219			219			219			219
Training Reserve	265		(173)	92		(19)	73			73			73			73
Council Tax Reserve	217	(79)	(7)	132		(80)	52		(80)	(28)			(28)			(28)
ESMCP	739			739			739			739			739			739
Commissioned Services Reserve	861		(243)	618		(54)	564		(57)	507		(10)	497		(10)	487
Total Reserves within current MTFP	**12,362**	**4,831**	**(9,446)**	**7,746**	**4,936**	**(8,968)**	**3,714**	**4,139**	**(5,423)**	**2,430**	**6,015**	**(6,055)**	**2,390**	**8,220**	**(8,213)**	**2,397**
Funding for specific projects and programmes beyond the current planning period.																
Confiscated Monies Reserve	565	154	(294)	425	140	(100)	465	140	(100)	505	140	(100)	545	140	(100)	585
Cost of Change Reserve	1,469		(1,223)	246		(170)	76			76			76			76
Total Reserves beyond current MTFP	**2,033**	**154**	**(1,517)**	**671**	**140**	**(270)**	**541**	**140**	**(100)**	**581**	**140**	**(100)**	**621**	**140**	**(100)**	**661**
As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance)																
Insurance Reserve	0	555		555			555			555			555			555
Pay and Pensions Reserve	950	900		1,850		(781)	1,069		(110)	959		(300)	659			659
Major Incident Reserve	432			432			432			432			432			432
Total General Contingency Reserves	**1,383**	**1,455**	**0**	**2,838**	**0**	**(781)**	**2,057**	**0**	**(110)**	**1,947**	**0**	**(300)**	**1,647**	**0**	**0**	**1,647**
Total Earmarked Reserves	**15,779**	**6,440**	**(10,963)**	**11,255**	**5,076**	**(10,019)**	**6,312**	**4,279**	**(5,633)**	**4,958**	**6,155**	**(6,455)**	**4,658**	**8,360**	**(8,313)**	**4,705**
General Reserves	**5,602**			**5,602**			**5,602**			**5,602**			**5,602**	**1,000**		**6,602**
Total Usable Reserves	**21,381**	**6,440**	**(10,963)**	**16,858**	**5,076**	**(10,019)**	**11,915**	**4,279**	**(5,633)**	**10,561**	**6,155**	**(6,455)**	**10,260**	**9,360**	**(8,313)**	**11,307**
Capital Receipts Reserve	**8,053**	**965**		**9,018**	**525**		**9,543**	**900**	**(4,263)**	**6,180**	**1,640**	**(7,814)**	**6**	**550**		**556**
Total Reserves	**29,435**			**25,876**			**21,458**			**16,741**			**10,267**			**11,864**

9. Risks

9.1 The major risks and unknowns surrounding the figures presented here are:

- Pay Awards are higher than the assumptions within the plan

- The levels of recruitment needed to deliver against both the financial and operational plans of the Force.

- Any differences between the future years' actual Government Grant settlements, especially in relation to Operation Uplift, and those estimated within the plan

- Variations in future years between the estimated tax base used and the actual declared tax base.

- That the public does not support the precept increases that are factored into the current plans

- Increasing costs of the employers Pension Contribution into the Police Pension Fund.

- Sensitivity of assumptions, including inflation and borrowing costs.

- The ability of the Force to manage within its allocated budget

- The ability and capacity to either absorb growth/cost pressures and/or deliver savings to enable expenditure in essential areas to continue.

- Ability to deliver the savings included within the plans within the timeframes set and also to the level needed whilst delivering the required levels of service.

- The ability of the Force to deliver both the Capital Programme and the Change Pipeline.

10 Robustness of Estimates and Adequacy of Financial Reserves Advice

10.1 As CFO to the PFCC it is my duty to specifically comment on the robustness of the estimates put forward for the PFCC's consideration.

10.2 For the last 2 years I highlighted there were a number of areas of expenditure that would need to be closely managed and referred to the following:

- Staff Pay given the current levels of vacancies
- Recruiting PCSO numbers back to Establishment levels
- Ensuring Police Officer Targets are hit
- Ensuring that Supplies and Service budgets are fully understood and managed.
- Capital Programme

10.3 Other than the Police Officer Targets all of the above points have caused a concern within the Force's budget during 2023/24. These will all need to be actively managed to ensure that this doesn't occur again in 2024/25.

10.4 There are some risks in terms of higher than forecast spend that could potentially come from pay awards, if these are agreed at a higher level than budgeted. In addition to pay, the level of general inflation within the economy and therefore likely to feed through into costs for the organisation will also need to be monitored closely.

10.5 It will be vital to continue to improve the understanding of the finances within the Force, how they link to the plans in place and then closely monitor the financial position throughout 2024/25 to ensure that the finances support the delivery and achievement of the Police and Crime Plan objectives.

10.6 The funding available to deliver the Capital plans of the organisation are robust however the continued challenges around delivery need to be overcome as it is holding back the organisation in terms of developing and financing the investments that are likely in the medium term.

10.7 A review has been undertaken of the PFCC's reserves and general balances. The PFCC's general balances and reserves are an important part of the PFCC's risk management strategy giving the financial flexibility to deal with unforeseen costs or liabilities. Assuming the approval of the plan set out in the budget report, I am satisfied that the PFCC would have adequate levels of financial reserves and general balances throughout the MTFP.

10.8 In overall terms the capacity to increase precept by more than previously planned continues to underpin a very well-resourced organisation. The Funding Formula review could however change this position significantly.

10.9 The MTFP forecasts that General Reserves will be maintained at £5.6m across the MTFP until 2027/28 when they will increase by £1m to maintain a General Reserve of 3.0% of the Net Budget Requirement. I believe this to be a reasonable level given the overall challenges and risks faced by the organisation.

10.10 For the reasons set out in this report and from my own review of the estimates process I am satisfied that the proposed spending plan for 2024/25 is sound and robust however there are a number of areas that I have highlighted that will need to be closely managed.

11 Conclusion

11.1 The Police Settlement for 2024/25 has provided the PFCC with an increase in Core Government Funding of £7,693k, or 6.6%.

11.2 Taking into account all of the other projected changes in income, including the agreed Precept increase, then the overall forecast increase in income is expected to be £18.6m.

11.3 Unfortunately much of this funding increase is either specifically linked to expenditure or linked to decisions already made nationally.

11.4 Reserves are currently forecast to reduce by around £17m (from £29m) during the life of the Medium Term Financial. This is predominantly to support the Capital programme, and therefore ultimately the Revenue budget, to focus as much funding on service delivery as possible during 2024/25 and beyond.

11.5 Based on the plans and assumption outlined within this report and some use of reserves, then the organisation can demonstrate a balanced budget for the next 4 years.

11.6 There are some areas within the plans that will need to be actively managed otherwise underspends are likely, especially in relation to Police Staff and PCSO pay budgets.

11.7 In addition to this the Capital Programme looks to be a challenge to deliver everything that has been set out within 2024/25, and will therefore need to be robustly managed.

Appendix A

Capital Financing and Expenditure					
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	£000s	£000s	£000s	£000s	£000s
Earmarked Reserve/Funding b/f	**17,103**	**13,985**	**10,660**	**6,181**	**6**
Capital Receipts - vehicles and PPE	500	525	550	550	550
Capital Receipts from Estates Strategy	465	0	350	1,090	0
Contributions (to)/from Revenue	4,909	4,936	4,139	6,015	8,220
Borrowing	1,911	4,387	2,759	639	1,042
Projected in-year funding available	7,785	9,848	7,798	8,294	9,812
Capital and Project Plans					
ICT	3,372	4,377	2,916	8,826	3,565
Fleet	4,099	2,810	4,418	3,195	3,997
Estates	1,911	4,387	1,484	639	1,042
Other Rolling Programmes and Schemes	617	368	338	302	392
Other Schemes	396	75	12	47	8
Total Agreed Programme	10,395	12,017	9,169	13,009	9,004
Change Pipeline	508	1,155	3,109	1,460	211
Earmarked Reserve/Funding c/f	13,985	10,660	6,181	6	603

Appendix B

Reserves Strategy

There is a requirement within the Financial Management Code of Practice to publish a Reserve Strategy and as part of arrangement to improve transparency:

- Each PCC should publish their reserves strategy on their website, either as part of their medium term financial plan or in a separate reserves strategy document. The reserves strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve held for each year. The reserves strategy should cover resource and capital reserves and provide information for the period of the medium term financial plan (and at least two years ahead).

- Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the PFCC's medium term financial plan.

The strategy should be set out in a way that is clear and understandable for members of the public, and should include:

- how the level of the general reserve has been set;
- justification for holding a general reserve larger than five percent of budget;
- details of the activities or items to be funded from each earmarked reserve, and how these support the PFCC and Chief Constable's strategy to deliver a good quality service to the public.

- Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.

The information on each reserve should make clear how much of the funding falls into the following three categories:

- Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.
- Funding for specific projects and programmes beyond the current planning period.
- As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).

With this in mind the Reserves Forecast across the MTFP are shown below, along with the necessary supporting information on the following pages:

Reserves Forecast

The following schedule sets out the forecast movements on reserves over the life of the current long term financial plan, it is important to recognise that whilst the schedule sets out the expected use of the current reserves circumstances will change and all reserves will be reviewed at least annually. It is also important to recognise that there will undoubtedly be a need to create new reserves, in future years, to deal with risks that are currently unknown; therefore while the current schedule shows that the overall level of risks will reduce significantly, the likelihood is that they will not reduce in overall financial terms as exactly planned and that while current reserves are spent new reserves are likely to be needed to manage future risks

	Balance at 31 March 2023 £000	Tranfers In 2023/24 £000	Tranfers Out 2023/24 £000	Balance at 31 March 2024 £000	Tranfers In 2024/25 £000	Tranfers Out 2024/25 £000	Balance at 31 March 2025 £000	Tranfers In 2025/26 £000	Tranfers Out 2025/26 £000	Balance at 31 March 2026 £000	Tranfers In 2026/27 £000	Tranfers Out 2026/27 £000	Balance at 31 March 2027 £000	Tranfers In 2027/28 £000	Tranfers Out 2027/28 £000	Balance at 31 March 2028 £000
Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.																
PFCC Reserve	471			471			471			471			471			471
Capital Reserve	9,051	4,909	(8,994)	4,966	4,936	(8,785)	1,117	4,139	(5,256)	0	6,015	(6,015)	(0)	8,220	(8,173)	47
Firearms Licence Reserve	539		(30)	509		(30)	479		(30)	449		(30)	419		(30)	389
Investments Reserve	219			219			219			219			219			219
Training Reserve	265		(173)	92		(19)	73			73			73			73
Council Tax Reserve	217	(79)	(7)	132		(80)	52		(80)	(28)			(28)			(28)
ESMCP	739			739			739			739			739			739
Commissioned Services Reserve	861		(243)	618		(54)	564		(57)	507		(10)	497		(10)	487
Total Reserves within current MTFP	**12,362**	**4,831**	**(9,446)**	**7,746**	**4,936**	**(8,968)**	**3,714**	**4,139**	**(5,423)**	**2,430**	**6,015**	**(6,055)**	**2,390**	**8,220**	**(8,213)**	**2,397**
Funding for specific projects and programmes beyond the current planning period.																
Confiscated Monies Reserve	565	154	(294)	425	140	(100)	465	140	(100)	505	140	(100)	545	140	(100)	585
Cost of Change Reserve	1,469		(1,223)	246		(170)	76			76			76			76
Total Reserves beyond current MTFP	**2,033**	**154**	**(1,517)**	**671**	**140**	**(270)**	**541**	**140**	**(100)**	**581**	**140**	**(100)**	**621**	**140**	**(100)**	**661**
As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance)																
Insurance Reserve	0	555		555			555			555			555			555
Pay and Pensions Reserve	950	900		1,850		(781)	1,069		(110)	959		(300)	659			659
Major Incident Reserve	432			432			432			432			432			432
Total General Contingency Reserves	**1,383**	**1,455**	**0**	**2,838**	**0**	**(781)**	**2,057**	**0**	**(110)**	**1,947**	**0**	**(300)**	**1,647**	**0**	**0**	**1,647**
Total Earmarked Reserves	**15,779**	**6,440**	**(10,963)**	**11,255**	**5,076**	**(10,019)**	**6,312**	**4,279**	**(5,633)**	**4,958**	**6,155**	**(6,455)**	**4,658**	**8,360**	**(8,313)**	**4,705**
General Reserves	**5,602**			**5,602**			**5,602**			**5,602**			**5,602**	**1,000**		**6,602**
Total Usable Reserves	**21,381**	**6,440**	**(10,963)**	**16,858**	**5,076**	**(10,019)**	**11,915**	**4,279**	**(5,633)**	**10,561**	**6,155**	**(6,455)**	**10,260**	**9,360**	**(8,313)**	**11,307**
Capital Receipts Reserve	**8,053**	**965**		**9,018**	**525**		**9,543**	**900**	**(4,263)**	**6,180**	**1,640**	**(7,814)**	**6**	**550**		**556**
Total Reserves	**29,435**			**25,876**			**21,458**			**16,741**			**10,267**			**11,864**

Why have these Reserves been established and what will they used for?

Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.

PFCC Reserve (Funding for Planned Expenditure over MTFP)
The PFCC has established the reserve to support PFCC specific costs and initiatives. This reserve will support the transition to a Mayoral Combined Authority over the next 2 financial years.

Capital Reserve (Funding for Planned Expenditure over MTFP)
This reserve is held to meet the forecast costs of capital schemes which will enable the capital needs of the organisation to be funded in a sustainable manner, without the need to increase borrowing beyond what is determined to be a prudent level and to also provide some contingency to fund unknown investments whether these be from local changes or national initiatives.

Change Reserve (Funding for Planned Expenditure over MTFP)
This reserve is held to meet the forecast costs of additional fixed term resources that are needed to deliver Change within the Force.

Firearms Licence Reserve (Funding for Planned Expenditure over MTFP)
This reserve is held to meet the variable nature of income from Firearms versus the costs of administering the process.

Investments Reserve (Funding for Planned Expenditure over MTFP)
This reserve was created from a 'precept' underspend from 2019/20 and is to be invested in line with the PFCC proposals.

Training Reserve (Funding for Planned Expenditure over MTFP)
This reserve was created from an underspend from 2019/20 when not all planned training could be delivered in year. This is expected to be used to support 'catching up' with training that was paused during the pandemic.

Collection Fund Reserve (Funding for Planned Expenditure over MTFP)
This reserve will be utilised to support the Road Safety Partnership, with the remaining balance transfer to the Change Reserve.

ESMCP Reserve (Funding for Planned Expenditure over MTFP)
This specific funding from the Government is to be used to support the transition to the new Emergency Service Mobile Communications Platform and will be released in line with plans and Government timelines.

Commissioned Services Reserve (Funding for Planned Expenditure over MTFP)
To help manage the variable nature of and short term nature of some grants provided for this area of work this Reserve has been established from previous underspends in this area to help manage the uncertainties of funding changes and invest initially in new areas of work

<u>Funding for specific projects and programmes beyond the current planning period</u>.

Confiscated Monies Reserve
This reserve holds money raised from confiscated assets generated through the proceeds of crime, either directly or via grant from Central Government. The reserve is utilised to support crime fighting work, subject to statutory restrictions on usage

Cost of Change Reserve (Funding for Planned Expenditure over MTFP)
This funding within this reserve is be released to the Change Reserve.

<u>As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).</u>

Insurance Reserve (General Contingency Reserve)
The Police, Fire and Crime Commissioner operates on a self-insurance basis determined by the level of excess on the cover provided by external policies. This reserve is ring-fenced for insurance requirements only and cannot be used for other purposes. It is calculated based on an historic assessment of claims history and is subjected to an actuarial audit to validate the fund level on a three-yearly basis. This reserve is available should the Police, Fire and Crime Commissioner face exceptional costs or suffer a major catastrophic incident or face premium increases which cannot be met by budget in year.

Pay and Pensions Reserve (General Contingency Reserve)
The biggest risk within the financial plans are the cost pressures that result from Pay Awards that are higher than forecast. These awards are generally notified late in the financial year and therefore with little/no time to reduce spending if required. This reserve therefore provides a mechanism for meeting unexpected costs in this area, should they materialise, while long term savings plans are developed and delivered.

Major Incident Reserve (General Contingency Reserve)
This reserve was established by transfer from revenue, and is held to contribute to the funding of any one off major incident revenue costs over and above the annual budget set aside for major incidents.

NORTH YORKSHIRE POLICE, FIRE AND CRIME COMMISSIONER (FIRE & RESCUE AUTHORITY)

EXECUTIVE BOARD

Report of the Chief Financial Officer

27th February 2024

TREASURY MANAGEMENT STRATEGY STATEMENT

1.0 Purpose of Report

1.1 To present an updated Annual Treasury Management Strategy Statement for the financial year 2024/25 which incorporates:

a) a Treasury Management Strategy;
b) Capital and Treasury Prudential Indicators, including a Minimum Revenue Provision Policy;
c) a Borrowing Strategy;
d) an Annual Investment Strategy; and
e) a Capital Strategy.

2.0 INTRODUCTION AND CONTEXT

2.1 Treasury Management is defined as 'the management of the local authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks'.

2.2 The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when needed. with surplus monies being invested in low-risk counterparties, with the main aims of providing sufficient liquidity and security, with the achievement of the best possible investment returns ranking as less important.

2.3 The second main function of the treasury management service is the funding of the Authority's capital plans which will support the provision of services. The capital programme provides a guide to the borrowing need of the Authority, and there needs to be longer term cash flow planning to ensure capital spending requirements can be met. The management of longer-term cash may involve arranging long or short-term loans, utilising longer term cash flow surpluses and, occasionally, debt restructuring to meet Authority risk or cost objectives.

2.4 North Yorkshire Council provides most of the Authority's treasury management arrangements under the terms of a Service Level Agreement. Under this agreement the Council is required to comply with the terms of the Authority's approved Annual Treasury Management Policy Statement and Annual Treasury Management and Investment Strategy. This includes providing advice to the Authority on any necessary changes required at the time of annually updating these documents.

2.5 The Authority adopts the latest CIPFA Code of Practice on Treasury Management (the Code) which is regarded as best practice in ensuring adequate monitoring of its capital expenditure plans and its Prudential Indicators.

2.6 The Authority is currently forecasting year end cash balances in the order of £2.2m at 31st March 2024. Depending on the timing of cash flows of receipts and payments throughout the year, balances available for investment daily are likely to increase to between £10m and £12m at points throughout 2024/25. The magnitude of these sums available for investment reinforces the importance of having robust Treasury Management strategies and polices.

2.7 The Capital Programme is regularly reviewed and there continues to be acknowledgement that there are significant areas of the Fire Estate and the equipment used within the service that require update.

2.8 The Capital Programme includes around £11m for the potential replacement of new stations, approval of any plans will be subject to full business cases and therefore currently do not have approval to commence. These plans coincide with the end of the PFI contract in 2027 which will save some £300k per year and can be used to fund the debt charges resulting from borrowing to fund the replacement stations.

2.9 The programme will be kept under review as regards outcomes of the Risk and Resource Model reviews which are likely to impact on the priority order of schemes. Also, estimates of costs for new stations will be regularly revisited alongside any impact on the minor works programme. It is important to understand how quickly different elements of the programme of work can be undertaken to set against the funding available.

2.10 There continues to be an increased focus on slippage of capital schemes moving into 2024/25. Slippage approved prior to February 2024 has been included within the Capital Programme. Any requests for further slippage will be subject to approval by the Chief Financial Officer on preparation of a full and separate business case.

2.11 This report provides a summary of the following for 2024/25:

2.11.1 **Treasury Management Strategy (See Annex 1 – Section 1)**

The Treasury Management Strategy sets out the requirements for the overall Treasury, Borrowing, Investment and Capital Policies. The strategic approach is set out in the following:

2.11.2 **Capital Prudential Indicators (See Annex 1 - Section 2)**

The Capital Prudential Indicators set out the capital expenditure plan and associated indicators, capital financing requirement (£24.1m in 2024/25) and the monitoring of core funds and investment balances. The Minimum Revenue Provision (MRP) Policy Statement is also included. The Authority is required to determine the amount of MRP it considers prudent for each financial year. The MRP Policy is based on the Government's statutory guidance.

The Prudential Indicators have been revised and updated in line with the latest CIPFA Code of Practice. The Estimated Ratio of Capital Financing Costs is no longer a required indicator but is included as a local affordability indicator highlighting to management the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

2.11.3 **Borrowing Strategy (See Annex 1 - Section 3)**

The Treasury Management function ensures that the Authority's cash is managed to safeguard the delivery of the Capital Expenditures plans set out in **Annex 1**. The Borrowing Strategy covers the current and projected position as well as the Treasury Prudential Indicators. The key Treasury Management Indicators the PFCC is required to approve are:

- The Authorised Limit for External Debt (the legal limit beyond which external debt is prohibited), £27m in 2024/25; and

- The Operational Boundary for External Debt (the limit beyond which external debt is not normally expected to exceed), £26m in 2024/25.

2.11.4 **Annual Investment Strategy (See Annex 1 - Section 4)**

By virtue of the Service Level Agreement with North Yorkshire Council, the Authority has adopted the Annual Investment Strategy of the Council which is embedded within the terms of the agreement and within the services which the Council provides on the Authority's behalf. The Annual Investment Strategy details the Council's Investment Policy and approach to the investment of funds.

2.11.5 **Treasury Management Strategy Statement Appendices (See Appendices A - F)**

Appendix A	The Capital Prudential and Treasury Indicators 2024/25 to 2026/27
Appendix B	Approved Lending List
Appendix C	Treasury Management Scheme of Delegation
Appendix D	The Treasury Management Role of the Section 151 Officer

2.11.6 **Capital Strategy (See Annex 2)**

The Capital Strategy sets out the context of which Capital Expenditure and Investment decisions are made and gives due consideration to both risk and reward and the impact on the achievement of policy outcomes. The Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;

- an overview of how the associated risk is managed; and

- the implications for future financial sustainability.

The aim of this capital strategy is to ensure that the PFCC and members of Executive Board understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

3.0 Recommendations

That the PFCC is asked to approve:

3.1 The Treasury Management Strategy Statement (**Annex 1**), consisting of the Annual Treasury Management Strategy **(Section 1),** Capital Prudential Indicators (**Section 2**), Borrowing Strategy **(Section 3)** and Annual Investment Strategy 2023/24 (**Section 4**), including in particular;

(i) an authorised limit for external debt of £27.1m in 2024/25

(ii) an operational boundary for external debt of £26.1m in 2024/25

(iii) the Prudential and Treasury Indicators

(iv) a limit of 20% (estimated at £440k) of the overall balances can be considered for longer term investments over 365 days subject to comparative yields on short term investments

(v) a Minimum Revenue Provision (MRP) policy for debt repayment to be charged to revenue in 2024/25 as set out in **Annex 1 - Section 2**

(vi) the Capital Strategy as attached as **Annex 2**

(vii) the Chief Financial Officer report to those charged with governance in respect of in year Treasury Management issues

ANNEX 1

1.0 SECTION 1 - TREASURY MANAGEMENT STRATEGY 2024/25

1.1 The Treasury Management strategy for 2024/25 covers two main areas:

a) **Capital issues**
- the capital expenditure plans and the associated prudential indicators; and
- the Minimum Revenue Provision (MRP) policy.

b) **Treasury Management issues**
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Authority;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, Department for Levelling Up, Housing and Communities (DLUHC) Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.2 Treasury Management Reporting

The Authority adopts the latest CIPFA Code of Practice on Treasury Management (the Code) which is regarded as best practice in ensuring adequate monitoring of the Authority's capital expenditure plans and its Prudential Indicators.

Quarterly reporting to the PFCC is now required under the 2021 Treasury Management Code, however it is not necessary to take these reports via Executive Board. Executive Board is required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals:

a) **Treasury Management Strategy** (this report) - is forward looking and covers:

- the capital plans, (including prudential indicators)
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
- the Treasury Management strategy, (how the investments/borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

b) **A mid-year treasury management report** - primarily a progress report and will update the PFCC on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c) **An annual treasury outturn report** - a backward looking review document which provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Treasury Management reports are required to be adequately scrutinised before being recommended to the Commissioner. The scrutiny role is undertaken by Audit Committee.

1.4 **Training**

The revised CIPFA Treasury Management Code strengthens the requirement for Chief Financial Officer to ensure that Officers with responsibility for treasury management receive adequate training in treasury management. This especially applies to Officers responsible for scrutiny.

The scale and nature of training requirements will depend on the size and complexity of the Authority's treasury management needs. The Chief Financial Officer will assess whether treasury management staff and members have the required knowledge and skills to undertake the roles and if those skills have been maintained and are up to date.

2.0 SECTION 2 - CAPITAL PRUDENTIAL INDICATORS 2024/25 - 2026/27

2.1 The Code requires the Authority to set a range of Prudential Indicators for the next three years as part of the annual budget process, and before the start of the financial year to ensure that capital spending plans are affordable, prudent, and sustainable.

2.2 The PFCC will approve the Prudential Indicators for a three-year period alongside the annual Revenue Budget/Medium Term Financial Strategy for the year. The indicators will be monitored during the year and revisions submitted, as necessary.

The required Prudential Indicators are as follows:

- Capital Expenditure - Actual and Forecasts
- Capital Financing Requirement
- Net Borrowing and the Capital Financing Requirement
- Authorised Limit for External Debt
- Operational Boundary for External Debt
- Actual External Debt
- Liability Benchmark
- Maturity Structure of Borrowing
- Total Principal Sums Invested for periods longer than 365 days

MINIMUM REVENUE PROVISION (MRP) POLICY FOR 2024/25

2.3 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge, known as Minimum Revenue provision (MRP). The Authority is also allowed to undertake additional voluntary payments, the Voluntary Revenue provision (VRP), if required.

The Authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance gives four ready-made options for calculating MRP, however the Authority can use any other reasonable basis that it can justify as prudent.

2.4 MHCLG Guidance requires the Authority to approve an MRP Policy Statement in advance of each year. The MRP guidance offers a range of options, with an overriding recommendation that there should be prudent provision. The proposed policy for 2024/25 is as follows:

(a) for all capital expenditure incurred before 1 April 2008, MRP will be based on 4% of the Capital Financing Requirement (CFR) on a reducing balance basis.

(b) From 1 April 2008, for all unsupported borrowing not covered by points (c) and (d) below, the MRP policy will be;

Asset life method (option 3 of the statutory guidance) - MRP will be based on the estimated life of the assets using equal instalments of principal. In accordance with the regulations this option must also be applied for any expenditure capitalised under a Capitalisation Direction.

The asset life method provides for a reduction in the borrowing need over the asset's life. The Authority has applied the Depreciation Method from 1st April 2019. This allows it to make a more prudent provision in that it will recognise, where applicable, that assets are still worth 'something' after their useful lives have expired and minimise the impact on revenue.

The estimated life of relevant assets will be assessed each year based on types of capital expenditure incurred but in general will be between 40 to 50 years for property and land, and 5 to 15 years for vehicles, plant, and equipment. To the extent that expenditure does not create a physical asset and is of a type that is subject to estimated life periods that are referred to in the guidance, e.g. software licences, these periods will generally be adopted by the Authority.

The guidance also allows the Authority to defer the introduction of an MRP charge for new capital projects/land purchases until the year after that in which the new asset becomes operational, rather than in the year borrowing is required to finance the capital spending. This approach can be beneficial for projects that take more than one year to complete and is therefore included as part of the MRP policy.

(c) For capital expenditure on investment / development properties, under the current Government proposed amendments, where loan repayments are received in year those capital receipts will be used to reduce the CFR in that year. However, where no capital receipt is received, or where no future capital receipts are anticipated, a prudent level of MRP will be charged based on the asset life method using equal instalments of principal.

(d) For on balance sheet PFI schemes, MRP will be equivalent to the capital repayment (principal) element of the annual service charge payable to the PFI Operator and for Finance Leases, MRP will also be equivalent to the capital repayment (principal) element of the annual rental payable under the lease agreement.

MRP Overpayments - Under the MRP Guidance any charges made in excess of the statutory MRP are known as Voluntary Revenue Provision (VRP). VRP can be reclaimed in later years if deemed necessary or prudent. For these sums to be reclaimed in future, this policy must disclose the cumulative overpayment made each year. Up to 31st March 2024, the total VRP overpayments made total £19k.

2.5 Therefore the Authority's total MRP provision from 1 April 2023 will be the sum of (a) + (b) + (c) + (d) (as defined above) which is considered to satisfy the prudent provision requirement. Based on this policy, total MRP in 2024/25 is estimated to be £1.5m (including £0.4 in respect of PFI and finance leases).

3.0 SECTION 3 – BORROWING STRATEGY

3.1 The Authority's treasury portfolio position at 31st December 2023, and forecast at 31st March 2024 is shown below:

	31st December (Actual)		31st March 2024 (Forecast)	
	Principal Outstanding £m	Average Interest Rate %	Principal Outstanding £m	Average Interest Rate %
External Debt				
Fixed Rate				
- PWLB	15.2	4.1	14.3	4.1
Variable Rate	0.0	0.0	0.0	0.0
	15.2	**4.1**	**14.3**	**4.1**
Cash Available				
- Invested short term with NYCC	5.5	5.2	2.2	5.2
- Current Accounts	0.0	0.0	0.0	0.0
	5.5	**5.2**	**2.2**	**5.2**

3.2 **Prospects for interest rates**

The **current interest rate forecasts** of NYCC's Treasury Management Advisors (Link Asset Services - Treasury Solutions) are as follows. These are forecasts for PWLB certainty rates provided on 8 January:

Link Group Interest Rate View	08.01.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.80	4.30	3.80	3.30	3.20	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.60	4.10	3.70	3.20	3.20	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

The Link forecast for interest rates, updated on 8 January, reflected a view that the Monetary Policy Committee (MPC) would be keen to further demonstrate its anti-inflation position by keeping Bank Rate at 5.25% until at least the second half of 2024. Rate cuts are expected to start when both the CPI inflation and wage/employment data are supportive of such a move. There is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have been robust.

Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

In the upcoming months, Link forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

Public Works Loan Board (PWLB) Rates

- PWLB rates have moved since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025, which reflects market confidence in inflation falling back in a similar manner to that already seen in the US and eurozone.

The balance of risks to the UK economy:

- The overall balance of risks to economic growth in the UK is even.

Downside risks to current forecasts for UK gilt yields and PWLB rates include:

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).

- The Bank of England acts too quickly, or too far, over the next year to raise Bank Rate, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- Geopolitical risks, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.

- The pound weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Projected gilt issuance could be too much for the markets to comfortably digest without higher yields.

Links long-term (beyond 10 years) forecast for Bank Rate has increased to 3.00%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed Local Authority to Local Authority monies should be considered.

3.3 In practical terms the policy is to finance capital expenditure by borrowing from the Public Works Loan Board. Whilst individual loans have in the past been linked to the cost of specific capital assets or their useful life span, in future, loans will be taken out over varying periods depending on the perceived relative value of interest rates at the time of borrowing and the need to avoid a distorted loan repayment profile. To date, all the Authority's external borrowing is with PWLB.

One of the annual principal factors in increases in revenue costs relate to Capital Financing charges. The provision for debt repayment (otherwise known as the Minimum Revenue Provision or MRP) is a statutory calculation, whilst external interest payments are due under loan agreements with external borrowers. These sums are the product of past and future assumed borrowing.

3.4 **External v Internal Borrowing**

The Authority has undertaken internal borrowing of £7.3m to 31st March 2023 and there is future internal borrowing of £3.1m planned in respect of the 2023/24 capital programme.

This option is possible because of the Authority's cash balance with a daily average of £7.5m between the 1st April and 31st December 2023. This consists of cash flow generated from creditors, core cash (via reserves and provisions) and cash built up through minimum revenue provision due to most debt outstanding being on a maturity basis. Repayment of maturing debt of £1.2m has been made during 2023/24.

Liability Benchmark

The Authority is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the Liability Benchmark:

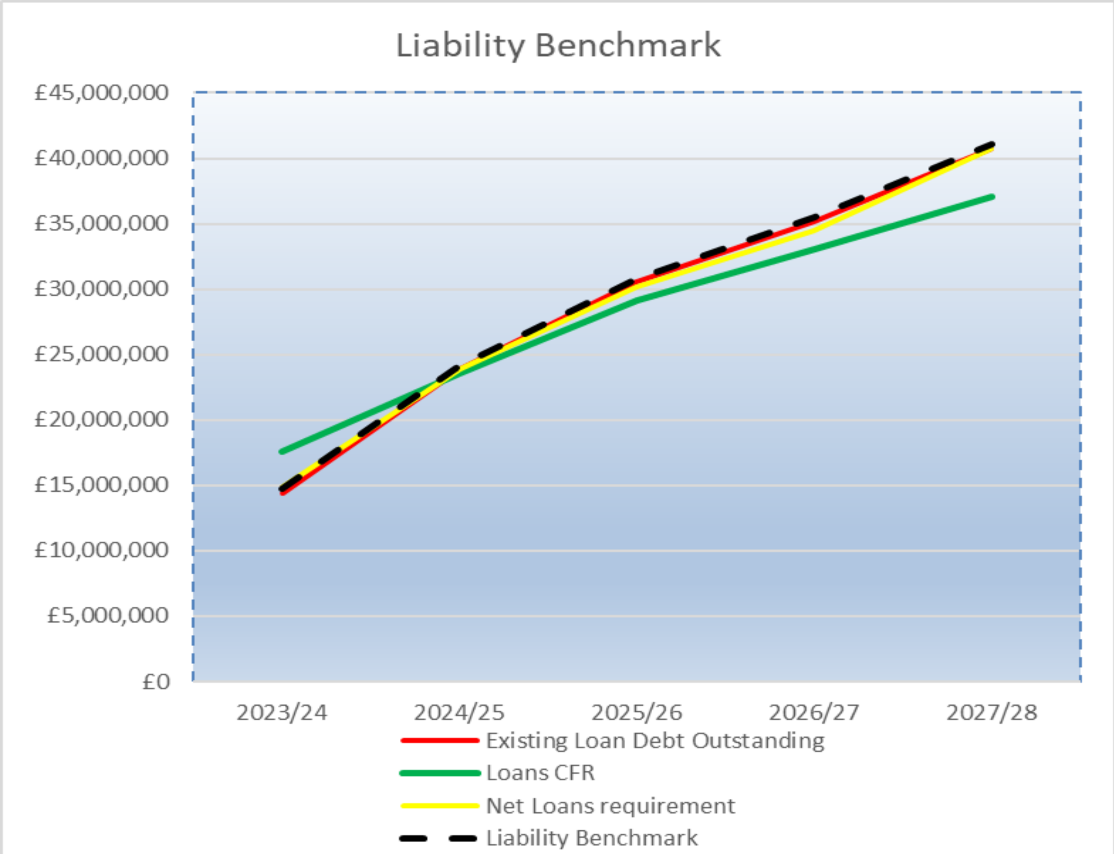
1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.

2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP. With only approved prudential borrowing being included in the calculation, the Loans CFR will peak after four years where the other inputs are projected forward for 50 years+.

3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance. The short-term liquidity allowance is an adequate (but not excessive) allowance for a level of excess cash to be invested short-term to provide access to liquidity if needed due to short-term cash flow variations.

   In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves and cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day to day cash flow. CIPFA recommends that the optimum position for external borrowing should be at the level of the liability benchmark (i.e. all balance sheet resources should be used to maximise internal borrowing).



There are many factors to consider when calculating the benchmark and in practical terms borrowing is taken in line with need considering cash balances at various points throughout the year. To align with the revised 2021 Treasury Management Code, the Authority will consider the need for further borrowing against short term investments, the cash flow forecast and the liquidity requirements of the Authority. Liquidity forecasts need to be carefully reviewed to avoid incurring higher borrowing costs in the future when the Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.*

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

3.5 **Policy on borrowing in advance of need**

The Authority will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within the approved Capital Financing Requirement estimate and will be considered carefully to ensure that value for money can be demonstrated, there is a clear business case for doing so and that the Authority can ensure the security of such funds.

Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 **Debt Rescheduling**

Rescheduling of current borrowing in the debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates. However, given the current forecasts for the future interest rates this will be kept under review and reported to the PFCC where necessary.

4.0 SECTION 4 - ANNUAL INVESTMENT STRATEGY

4.1 By virtue of the Service Level Agreement with North Yorkshire Council, the Authority has adopted the Annual Investment Strategy of the Council which is embedded within the terms of the agreement and within the services which the Council provides on the Authority's behalf. NYCC's Annual Treasury Management and Investment Strategy for 2024/25 was approved by its Executive on 23rd January 2024 and will go to Council for formal approval on 21st February 2024.

4.2 **Investment policy - management of risk**

The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the NYCC).

The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code"); and
- CIPFA Treasury Management Guidance Notes 2021

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council's risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

a) Minimum acceptable **credit criteria** are applied to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

b) **Other information**: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

c) **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.

d) The Council has defined the list of types of investment instruments that the treasury management team are authorised to use.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in more than one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.

e) **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio.

f) **Lending limits**, (amounts and maturity), and **transaction limits** for each counterparty will be set through applying the creditworthiness policy set out in **paragraph 4.2**.

g) The Council will set a limit for the amount of its investments which are invested for **longer than 365 days.**

h) Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**.

i) The Council has engaged **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity, and yield, given the risk appetite of the Council in the context of the expected level of cash balances and need for liquidity throughout the year.

j) All investments will be denominated in **sterling**.

However, the Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year

The above criteria are for the new unitary North Yorkshire Council. The risk management policy is broadly in line with the North Yorkshire County Council policy which was unchanged from the previous year.

4.2 **Creditworthiness policy**

The Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies;
- CDS spreads that may give early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments.

The Link Group creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preference to just one agency's ratings.

Typically, the minimum credit ratings criteria the Council use will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Link Group creditworthiness service.

If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap (CDS) spreads against the iTraxx European Financials benchmark and other market data daily via its Passport website, provided exclusively to it by Link Group. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

Creditworthiness

Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the pandemic in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information.

Environmental, social and governance (ESG)
This is a developing area, and for the purpose of the Council's treasury investments the Council's ESG policies and the environmental and climate change policy, will have a trickle-down effect into Treasury Management activity. Investments will still comply with SLY, Security, Liquidity, Yield requirements in the first instance. Treasury Management Practice 1 – Risk Management – has been expanded to include a high-level reference to ESG aspects of Treasury Management where creditworthiness and counterparty policies are in place to mitigate investment risk where the ESG risks are also incorporated.

4.3 **Other Limits**

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups, and sectors.

a) Non-specified treasury management investment limit. The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being £60m, being approximately 10% of the total treasury management investment portfolio.

b) Country limit. The Council has determined that, for counterparties outside the UK, it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix D. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Countries / Groups / Sector limits**. In addition
- Limits in place will apply to a group of companies/institutions
- Sector limits will be monitored regularly for appropriateness

4.4 **Investment strategy**

Under the Service level agreement, NYCC collects all available balances from the Authority and other organisations using the Treasury Management service and pools with NYCC funds. These aggregated balances are then invested in accordance with the agreed Investment Strategy.

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

Investment returns expectations. The current interest rate forecast includes a forecast for Bank Rate to have peaked at 5.3% in Q4 2023.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average Earnings in each year	
2023/24 (residual)	**5.30%**
2024/25	**4.70%**
2025/26	**3.20%**
2026/27	**3.00%**
2027/28	**3.25%**
Years 6 to 10	**3.25%**
Years 10+	**3.25%**

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

For its cash flow generated balances (cash required for liquidity purposes), the Council will seek to utilise its instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days) to benefit from the compounding of interest.

5. APPENDICES

Appendix A The Capital Prudential and Treasury Indicators 2024/25 to 2026/27

Appendix B ***** Approved Lending List *****

Appendix C Treasury Management Scheme of Delegation

Appendix D The Treasury Management Role of the Section 151 Officer

***** Appendix drawn from NYCC's Annual Treasury Management and Investment Strategy for 2024/25 was approved by its Executive on 23rd January 2024 and will go to Council for formal approval on 21st February 2024.

APPENDIX A

PRUDENTIAL INDICATORS 2024/25 TO 2026/27

1.1 **Prudential Indicators**

The Prudential Code requires authorities (including the PFCC) to self-regulate the affordability, prudence and sustainability of their capital expenditure and borrowing plans, by setting estimates and limits, and by publishing actuals, for a range of Prudential Indicators.

The key objectives of the Prudential Code are to ensure that:

- Capital expenditure plans are affordable, prudent, and sustainable
- Treasury Management decisions are taken in accordance with professional good practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable.

1.2 The Code imposes on authorities' clear governance procedures for setting and revising of Prudential Indicators and describes the matters to which an authority will have regard when doing so. This is designed to deliver accountability in taking capital financing, borrowing and Treasury Management decisions. A fundamental provision of the Prudential Code is that over the medium-term net borrowing will only be for a capital purpose.

1.3 Under the Code, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to the Code. Under the Code, the PFCC is required to set a range of Prudential Indicators for the financial years 2024/25 to 2026/27.

1.4 The Code states that Prudential Indicators for Treasury Management should be considered together with the Annual Investment Strategy. The indicators reflect the Capital Plan, existing commitments and associated financing costs as included within the Medium-Term Financial Plan (MTFP) 2024/25 to 2026/27.

1.5 **Affordability**

The following indicators are required to assess the affordability of the capital investment plans. They provide an indication of the impact of the capital investment plans on overall PFCC finances. The PFCC is requested to approve the following:

(i) **Estimates of capital expenditure**

This is a prudential indicator for prudence showing the previous year actual and estimates of the total of capital expenditure planned to be incurred during the forthcoming financial year and the following two financial years.

	2023/24	**2024/25**	**2025/26**	**2026/27**
	Estimate £000	Estimate £000	Estimate £000	Estimate £000
Capital Expenditure	**4,353**	**8,178**	**7,480**	**6,055**
Funded by:				
Internal Borrowing	3,116	0	0	0
External Borrowing	0	7,070	6,990	5,690
Other Capital resources	1,237	1,108	490	364

(ii) **Ratio of financing costs to net revenue stream**

This indicator highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs (including other long-term obligation costs net of investment income).

	2023/24	2024/25	2025/26	2026/27
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Minimum Revenue Provision:				
PWLB Borrowing	917	1,053	1,414	1,766
Finance Lease	86	88	0	0
PFI	275	332	306	391
Interest Payable:				
PWLB borrowing	638	713	1,108	1,342
Finance Lease	2	0	0	0
PFI	427	411	360	408
Interest receivable	-346	-300	-300	-300
Financing Costs	**1,998**	**2,297**	**2,888**	**3,607**
Net Revenue Stream	**36,626**	**40,423**	**41,853**	**43,338**
Ratio	**5.5%**	**5.7%**	**6.9%**	**8.3%**
Ratio - Excluding PFI	3.5%	3.8%	5.3%	6.5%

(iii) **Estimates of capital financing requirement (CFR)**

This is a prudential indicator for prudence and shows the previous year actual and the forecast total capital financing requirement at the end of the forthcoming financial year and the following two years. The CFR is the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It measures the underlying need to borrow for a capital purpose.

It measures the PFCC's underlying need to borrow for capital purposes and ensures that borrowing is only undertaken to fund capital assets and not support revenue expenditure.

Capital Financing Requirement (as at 31 March)

	2023/24	2024/25	2025/26	2026/27
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£001
Opening Capital Financing Requirement	**16,837**	**18,675**	**24,272**	**29,542**
Unsupported Borrowing to fund Capital Exp.	3,116	7,070	6,990	5,690
Minimum Revenue Provision:				
Supported Borrowing	-216	-208	-199	-191
Unsupported Borrowing	-700	-845	-1,215	-1,575
PFI and Finance Leases	-361	-420	-306	-391
Closing Capital Financing Requirement	**18,675**	**24,272**	**29,542**	**33,076**

The PFCC is required to make a statutory charge to revenue for the repayment of supported debt (the Minimum Revenue Provision) and this reduces the CFR.

(iii) **Limits to Borrowing Activity**

Within the Prudential Indicators there are several indicators to ensure that the PFCC operates its activities within well-defined limits.

For the first of these, the PFCC should ensure that its debt net of investments does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year, plus the estimate of any additional CFR for 2024/25 and the next two financial years.

	2023/24	2024/25	2025/26	2026/27
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Borrowing	14,434	23,870	30,518	35,154
PFI and Finance Leases	1,118	697	391	0
Investments	-2,200	-2,200	-2,200	-2,200
Net Borrowing	**13,352**	**22,368**	**28,709**	**32,954**
Total CFR for borrowing purposes	**18,675**	**24,272**	**29,542**	**33,076**

The projected forecasts detailed in the table above show that there is still margin between the net borrowing and the CFR and therefore the PFCC is within the limits required, although it is worth reflecting that this gap is forecast to reduce significantly in the later years of the plan.

A further two prudential indicators control or anticipate the overall level of borrowing. These are:

(iv) The **Authorised Limit** represents the legislative limit specified in Section 3 of the Local Government Act 2003. Borrowing beyond this limit is prohibited and therefore would be ultra vires. The provision of temporary borrowing allows for temporary short-term borrowing in year to allow for cash flow movements.

(v) The **Operational Boundary** which is based on the probable external debt during the year. It is the affordable debt limit, and is set using the operational boundary, plus scope for borrowing due to an unforeseen cashflow which may be required in the short term during the year, if for instance a large grant payment was delayed.

The PFCC is asked to approve the following limits:

Authorised Limit for External Debt	2023/24	2024/25	2025/26	2026/27
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Borrowing	14,434	23,870	30,518	35,154
PFI and Finance Leases	1,118	697	391	0
Provision for Temporary Borrowing	2,500	2,500	2,500	2,500
Net Borrowing	**18,052**	**27,068**	**33,409**	**37,654**

Operational Boundary for External Debt	2023/24	2024/25	2025/26	2026/27
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Borrowing	14,434	23,870	30,518	35,154
PFI and Finance Leases	1,118	697	391	0
Provision for Temporary Borrowing	1,500	1,500	1,500	1,500
Net Borrowing	**17,052**	**26,068**	**32,409**	**36,654**

(vi) **Actual External Debt**

Actual External Debt	2023/24	2024/25	2025/26	2026/27
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Borrowing	14,434	23,870	30,518	35,154
PFI and Finance Leases	1,118	697	391	0
Actual External Debt	**15,552**	**24,568**	**30,909**	**35,154**

(vii) **Liability Benchmark**

See **paragraph 3.4** above.

1.6 **Treasury Management Indicators**

The purpose of these is to contain Treasury Management activity within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the PFCC's overall financial position. The PFCC is asked to approve the following:

(i) **Maturity Structure of borrowing**

Due within:	Lower Limit %	Upper Limit %
Less than 1 year	0.00	10.0
Between 1-2 years	0.00	10.0
Between 2-5 years	0.00	30.0
Between 5-10 years	0.00	55.0
Between 10-20 years	0.00	100.0
Over 20 years	0.00	100.0

(ii) **Total principal sums invested for periods longer than 365 days**

Based on estimated levels of funds and balances, the need for liquidity and day to day cash flow requirements, it is forecast that £440,000 (20%) of the overall balances can be considered for longer term investments over 365 days subject to comparative yields on short term investments.

APPENDIX B

APPROVED LENDING LIST 2024/25

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)

	Country	Specified Investments (up to 1 year)		Non-Specified Investments (> 1 year £40m limit)	
		Total Exposure £m	Time Limit *	Total Exposure £m	Time Limit *
UK "Nationalised" banks / UK banks with UK Central Government involvement					
Royal Bank of Scotland PLC (RFB)	GBR	90.0	365 days	-	-
National Westminster Bank PLC (RFB)	GBR				
UK "Clearing Banks", other UK based banks and Building Societies					
Santander UK PLC (includes Cater Allen)	GBR	80.0	6 months	-	-
Barclays Bank PLC (NRFB)	GBR	90.0	100 days	-	-
Barclays Bank UK PLC (RFB)	GBR		6 months		
Bank of Scotland PLC (RFB)	GBR	80.0	6 months	-	-
Lloyds Bank PLC (RFB)	GBR				
Lloyds Bank Corporate Markets PLC (NRFB)	GBR				
Goldman Sachs International Bank	GBR	80.0	6 months	-	-
Sumitomo Mitsui	GBR	80.0	6 months	-	-
Standard Chartered Bank	GBR	80.0	6 months	-	-
Handlesbanken	GBR	80.0	365 days	-	-
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	40.0	3 months	-	-
Coventry Building Society	GBR	40.0	6 months	-	-
High Quality Foreign Banks					
National Australia Bank	AUS	40.0	365 days	-	-
Credit Industriel et Commercial	FRA	40.0	365 days	-	-
Landesbank Hessen-Thueringen Girozentrale (Helaba)	GER	40.0	365 days	-	-
DBS (Singapore)	SING	40.0	365 days	-	-
Bayerische Landesbank	GER	40.0	6 months	-	-
National Bank of Canada	CAN	40.0	6 months	-	-
Local Authorities					
County / Unitary / Metropolitan / District Councils		30.0	365 days	5.0	5 years
Police / Fire Authorities		30.0	365 days	5.0	5 years
National Park Authorities		30.0	365 days	5.0	5 years
Other Deposit Takers					
Money Market Funds		40.0	n/a liquid	-	-
Property Funds		5.0	365 days	5.0	10 years
UK Debt Management Account		150.0	365 days	-	-

* Based on data 30 September 2023

APPENDIX C

TREASURY MANAGEMENT SCHEME OF DELEGATION

Police, Fire and Crime Commissioner

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

Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

APPENDIX D

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The PFCC delegates responsibility for the implementation and regular monitoring of its Treasury Management policies and practices to the S151 Officer (Chief Financial Officer), alongside the execution and administration of Treasury Management decisions including any borrowing and debt rescheduling.

The S151 Officer (Chief Financial Officer)

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports.
- submitting budgets and budgets variations.
- receiving and reviewing management information reports.
- reviewing the performance of the treasury management function.
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- ensuring the adequacy of internal audit and liaising with external audit.
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments, and treasury management, with a long-term timeframe
- ensuring that the capital strategy is sustainable, affordable, and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to PFCC of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans, and financial guarantees
- ensuring that the PFCC is adequately informed and understands the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed

ANNEX 2

1.0 CAPITAL STRATEGY 2024/25

1.1 The CIPFA Code of Practice on Treasury Management requires local authorities to produce a Capital Strategy to demonstrate that capital expenditure and investment decisions contribute to the delivery of Authority's plans and provisions of services whilst taking account of stewardship, value for money, prudence, sustainability, proportionality, and affordability. This requirement was first introduced in 2018/19.

1.2 The purpose of the Capital Strategy is to set out how the Authority proposes to deploy its capital resources effectively to achieve its corporate and service objectives. The Capital Strategy considers other relevant strategies and, policies as well as the views of partners and interested parties with whom the Authority is involved. The resources which are forecast to be available to fund capital investment and the effect of that investment on the Authority's 's revenue budget are also considered. The Capital Strategy will serve as a useful point of reference when determining or reviewing the Authority's 's Capital Five Year Spending Plan (known as the Capital Plan).

1.3 The Capital Strategy is key to support long term investment decision enabling the delivery of the Authority's objectives and plans. It is a key strategy document and forms part of the Authority's revenue, capital, balance sheet and reserves planning. It provides:

- A long-term view of capital expenditure plans and any financial risks to which the Authority is exposed.
- Ensuring due regard to the long-term financing, affordability implications, potential risks, and the implications for future financial sustainability.

1.4 Capital Schemes must comply with other strategies as well as contract procedure rules, financial regulations and legislation, such as the Disability Discrimination Act. Important linking documents include:

- Authority's Constitution including Contract and Financial Procedure Rules
- Medium Term Financial Strategy
- Capital Plan
- Treasury Management Strategy Statement
- Asset management planning arrangements
- Individual Service Plans

2.0 CAPITAL INVESTMENT PLAN

Capitalisation Policy

2.1 Expenditure is classified as capital expenditure when it results in the acquisition or construction of an asset (e.g. land, buildings, vehicles, plant and equipment etc.) that:

- Will be held for use in the delivery of services, for rental to others, investment or for administrative purposes; and

- Are of continuing benefit to the Authority for a period extending beyond one financial year.

Subsequent expenditure on existing assets is also classified as capital expenditure if these two criteria are met.

2.2 There may be instances where expenditure does not meet this definition but would be treated as capital expenditure, including:

- Where the Authority has no direct future control or benefit from the resulting assets, but would treat the expenditure as capital if it did control or benefit from the resulting assets; and

- Where statutory regulations require the Authority to capitalise expenditure that would not otherwise have expenditure implications according to accounting rules.

2.3 The Authority operates a de-minimis limit for capital expenditure of £10,000. This means that items below this limit are charged to revenue rather than capital.

2.4 **Capital expenditure plans**

The Authority's strategies and plans support the need for capital investment to enable required outcomes. The Authority has a responsibility to apply an affordable, prudent, and sustainable approach to that investment, as set out in the Prudential Code and therefore uses the prioritisation and planning process to manage this as described above. A summary of the Authority's capital expenditure plans is shown below. Both plans agreed previously, and those forming part of the budget are integral to the capital strategy.

	Estimated	Estimated	Estimated	Estimated	Estimated
	2023/24	2024/25	2025/26	2026/27	2027/28
	£000	£000	£000	£000	£000
FUNDING					
Reserve Brought Forward	**2,995**	**2,063**	**1,141**	**832**	**593**
Revenue Contribution to Capital	253	286	182	125	420
Capital Receipts	52	0	0	0	0
Borrowing	3,116	6,970	5,417	3,082	2,520
Estates Replacement Borrowing	0	100	1,573	2,608	3,340
TOTAL FUNDING	**3,421**	**7,356**	**7,172**	**5,815**	**6,280**
EXPENDITURE					
Transport excluding Cars	2,007	3,922	4,617	2,382	120
Transport - Cars	829	301	148	118	0
Estates	1,109	1,148	2,373	3,308	4,040
ICT	408	908	342	246	510
Control System	0	0	0	0	1,700
Logistics	0	1,900	0	0	0
TOTAL APPROVED CAPITAL PROGRAMME	**4,353**	**8,178**	**7,480**	**6,055**	**6,370**
ESTATES REPLACEMENT PROGRAMME	**0**	**0**	**0**	**0**	**0**
TOTAL CAPITAL PROGRAMME	**4,353**	**8,178**	**7,480**	**6,055**	**6,370**
Reserve Carried Forward	**2,063**	**1,141**	**832**	**593**	**503**

2.5 **Capital expenditure in non-treasury investments** can be for a service or a commercial purpose. To meet service or Authority obligations capital investment could be in the form of loans or equity provided to external bodies, subsidiaries or joint ventures.In order to retain access to borrowing from the PWLB the Authority is required to certify the capitals plans do not include expenditure on new non-treasury commercial investments primarily for financial return. However, where the capital spending decision is primarily related to the function of the Authority and any financial returns are incidental then access is retained.

All alternative investment activities are subject to approval in accordance with the Authority's governance framework for decision making. the time of writing the Capital Strategy, there are no alternative investment activities that count as capital expenditure being considered by the Authority.

The Authorty recognises that achieving its capital ambitions will require consideration of alternative delivery structures and of all forms of funding including additional borrowing. Financial austerity has had a significant impact on affordability, however capital investment funded by borrowing will be undertaken in priority areas to meet capital ambitions if required, subject to at all times clearly understanding how the affordability of such expenditure can be managed over the longer term supported by a robust capital planning process, due diligence, business cases, risk management and monitoring.

3.0 AVAILABLE RESOURCES AND FUNDING PLANS

3.1 The Authority has several funding streams available to support capital investment. The funding of the five-year capital investment programme is detailed in the Medium-Term Financial Plan.

3.2 When expenditure is classified as capital expenditure for capital financing purposes, this means that the Authority can finance that expenditure from any of the following sources**:**

(a) **Capital grants and contributions** - amounts awarded to the Authority in return for past or future compliance with certain stipulations.

(b) **Capital receipts** - amounts generated from the sale of assets and from the repayment of capital loans, grants, or other financial assistance.

(c) **Revenue and reserve funding** - amounts set aside from the revenue budget in the Capital Reserve to be used for future capital funding.

(d) **Prudential Borrowing** - amounts that the Authority does not need to fund immediately from cash resources, but instead charges to the revenue budget over several years into the future.

3.3 Capital Financing Requirement and Borrowing

The Authority is required to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities (referred to as the 'Prudential Code') when assessing the affordability, prudence, and sustainability of its capital investment plans. It is only permitted to borrow externally (including via credit arrangements) up to the level implied by its Capital Financing Requirement (CFR).

Where capital expenditure has been incurred without a resource to pay for it, i.e. when proposed to be paid for by supported or unsupported borrowing, this will increase what is termed the Authority's Capital Financing Requirement (CFR) which is its underlying need to borrow. The amount of borrowing required will be considered along with the Authority's cashflow position.

When capital expenditure is funded from borrowing, this does not result in expenditure being funded immediately from cash resources but is instead charged to the revenue budget over several years. It does this in accordance with its policy for the repayment of debt, which is set out in **Annex 1 - Section 2.**

The CFR for the forthcoming financial year and the following two financial years are set out in **Appendix 1**.

3.4 **Assessing affordability** - the revenue cost implications of Capital investment undertaken historically and the proposed Capital Plan form an integral part of the Authority's revenue budget and Medium-Term Financial Plan. The revenue budget impact of capital schemes for Council Tax and Rent payers include:

- The costs of operating/maintaining new assets
- The capital financing costs of servicing any borrowing required to pay for investment (interest and the approach to making prudent provision for repayment of capital investment paid for by borrowing - MRP)
- The revenue costs of preparing and delivering projects
- Abortive costs required to be charged to revenue budgets if schemes do not proceed.

Some or all of the costs of investment may be offset by financial and non-financial benefits such as income, cost avoidance and importantly improved outcomes for residents. Where capital investment has been undertaken by borrowing, the Authority is required to spread the cost of that investment over future years' revenue budgets. This is in accordance with its MRP Policy for the prudent repayment of capital expenditure which is approved as part of the budget proposals each year.

3.5 **Affordability indicators -** Fundamental to the prudential framework is a requirement to set a series of prudential indicators. These indicators are intended to collectively build a picture that demonstrates the impact over time of the Authority's capital expenditure plans upon the revenue budget and upon borrowing and investment levels and explain the overall controls that will ensure that the activity remains affordable, prudent, and sustainable. Prudential and treasury indicators to manage capital investments take a longer-term view of affordability, prudence and sustainability and are included in the Treasury Management Strategy Statement at the start of every financial year. These are set out in **Appendix 1**.

3.6 **External Borrowing Limits**

There are prudential indicators for prudence which focus setting an affordable limit for external debt. The operational boundary is the affordable debt limit, and the authorised limit represents the legislative limit specified in Section 3 of the Local Government Act 2003. This is the set using the operational boundary plus an amount for unforeseen cashflow movement. The operational boundary is the limit for total gross external debt, separately identifying borrowing from other long-term liabilities.

These limits for the forthcoming financial year and the following two financial years are set out in **Appendix 1**.

3.7 **Borrowing Strategy**

The Authority's Borrowing Strategy is set out in **Annex 1 - Section 3**

The Authority is currently maintaining an under borrowed position. This means that the Capital Financing Requirement (CFR) has not been fully funded from long-term external borrowing as cash supporting the Authority's reserves and balances has been used as a short-term measure.

The use of internal borrowing has been an effective strategy in recent years as:

(a) It has enabled the Authority to avoid significant external borrowing costs; and

(b) It has mitigated significantly the risks associated with investing cash in what has often been a volatile and challenging market.

The Treasury Management Strategy Statement uses forecast cashflow information from the Reserves Strategy and the Capital Plan to make decisions around the amount, timing and duration of any new external borrowing required by the Authority.

In terms of the Reserves Strategy, the Authority uses a risk-assessed General Fund Reserve and effectively manages the balances of earmarked reserves over the longer term which is used to support the forward Balance Sheet projection. This projection provides a valuable foundation for the strategic financial planning of capital financing costs for the capital investment plan.

In terms of the Borrowing Strategy, the Authority's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between financing using the low-cost internal cash resources available in the short term and further long-term fixed rate loans where the future cost is known.

Opportunities to generate savings by refinancing or prematurely repaying existing long-term debt will also be kept under review. Potential savings will be considered in light of the current treasury position and the costs associated with such actions.

4.0 GOVERNANCE

4.1 Consideration, approval and monitoring of the capital plan takes place as part of the Authority's planning timetable.

4.2 Consideration must be given to the capital budget setting process. The Capital Plan sets out the Authority's longer term capital investment plans. These plans support the Authority's strategic and service objectives by maximising the assets necessary to support service delivery whilst minimising the impact on the revenue budget.

4.3 The Capital Plan must be approved by the PFCC before the start of the financial year. The Authority's provides a framework for the preparation and appraisal of schemes proposed for inclusion in the Capital Plan, appropriate authorisations for individual schemes to proceed and facilitate the overall management of the Capital Programme within defined resource parameters.

4.4 The Chief Financial Officer is responsible for preparing an overall Capital Programme for consideration and approval by the PFCC, the funding of which being compatible always with the Treasury Management Policy Statement of the Authority. Individual schemes shall only be included in the

Capital Plan following a project appraisal process undertaken in accordance with the Code of Corporate Governance.

In Year Opportunities can be put forward to the Chief Financial Officer for entry into the capital programme in a managed way which will be reported to both the Senior Leadership Board and Executive Board as part of the regular budget monitoring reporting timetable.

4.5 Other long-term liabilities - The Authority's Financial Procedure Rules provide a framework for the appraisal and approval of schemes including where this is delivered by means of PFI contracts or leasing arrangements. This framework includes the ongoing monitoring and risk management of long-term liabilities taken to deliver operational services.

4.6 The Prudential Code requires the Chief Financial Officer to report explicitly on the affordability and risk associated with the Capital Strategy via the reporting arrangements set out within.

5.0 SKILLS AND TRAINING

5.1 All capital investment approvals are subject to robust consideration and challenge by Officers with extensive Local Government experience and from varying professional backgrounds.

5.2 The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Authority requires finance staff to maintain relevant professional qualifications including ACCA and AAT. All officers attend courses on an ongoing basis to keep abreast of new developments and skills to ensure their Continuous Professional Development.

5.3 Where staff do not have the specialist knowledge and skills required, use is made of external advisers and consultants that are experts in their field.

Report of the Chief Financial Officer for the Police, Fire and Crime Commissioner (PFCC) to the PFCC
27th February 2024

Status: For Decision

Treasury Management, Prudential Indicators, Investment Strategy and Capital Strategy

1. Purpose

1.1 To comply with the CIPFA Prudential Code of Practice (revised 2021), the PFCC is required to approve a Treasury Management Strategy for the financial year 2024/25.

The Treasury Management Strategy sets out the requirements for the overall Treasury, Borrowing, Investment and Capital Policies. The content of this report addresses this requirement.

The strategic approach is set out in the following:

1.2 **Capital Prudential Indicators** (See Paragraph 4)

The Capital Prudential Indicators set out the capital expenditure plan and associated indicators, capital financing requirement (£17.9m in 2024/25) and the monitoring of core funds and investment balances. The Minimum Revenue Provision (MRP) Policy Statement is also included. The Authority is required to determine the amount of MRP it considers prudent for each financial year. The MRP Policy is based on the Government's statutory guidance.

The Prudential Indicators have been revised and updated in line with the latest CIPFA Code of Practice.

1.3 **Borrowing Strategy** (See Paragraph 5)

The Treasury Management function ensures that the Authority's cash is managed to safeguard the delivery of Capital Expenditures plans. The Borrowing Strategy covers the current and projected position as well as the Treasury

Prudential Indicators. The key Treasury Management Indicators the PFCC is required to approve are:

- The Authorised Limit for External Debt (the legal limit beyond which external debt is prohibited), £9m in 2024/25; and
- The Operational Boundary for External Debt (the limit beyond which external debt is not normally expected to exceed), £6m in 2024/25.

1.4 **Annual Investment Strategy** (See Appendix A)

The Annual Investment Strategy details the Authority's Investment Policy and approach to the investment of funds.

1.5 **Capital Strategy** (See Appendix B)

The Capital Strategy sets out the context of which Capital Expenditure and Investment decisions are made and gives due consideration to both risk and reward and the impact on the achievement of policy outcomes. The Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.
- The Minimum Revenue Provision (MRP) Policy Statement is also included. The Authority is required to determine the amount of MRP it considers prudent for each financial year. The MRP Policy is based on the Government's statutory guidance.

The aim of this capital strategy is to ensure that the PFCC and members of Executive Board understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

2. Recommendations

The PFCC is asked to:

2.1 Approve the Treasury Management Strategy for 2024/25 incorporating the Prudential Indicators, set out in Paragraph 4.

2.2 Approve the Annual Investment Strategy set out at Appendix A.

2.3 Note that future investments will be placed in line with the strategy in Appendix A.

2.4 Approve the Capital Strategy, including the Minimum Revenue Provision Policy, set out at Appendix B

3. TREASURY MANAGEMENT STRATEGY 2024/25

3.1 Treasury Management Reporting

The Authority adopts the latest CIPFA Code of Practice on Treasury Management (the Code) which is regarded as best practice in ensuring adequate monitoring of the Council's capital expenditure plans and its Prudential Indicators.

Quarterly reporting to the PFCC is now required under the 2021 Treasury Management Code, however it is not necessary to take these reports via Executive Board. Executive Board is required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals:

a) Treasury Management Strategy (this report) - is forward looking and covers:

- the capital plans, (including prudential indicators)
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
- the Treasury Management strategy, (how the investments/borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

b) A mid-year treasury management report - primarily a progress report and will update the PFCC on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c) An annual treasury outturn report - a backward looking review document which provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

3.2 **Training**

The revised CIPFA Treasury Management Code strengthens the requirement for Chief Financial Officer to ensure that Officers with responsibility for treasury management receive adequate training in treasury management. This especially applies to Officers responsible for scrutiny.

The scale and nature of training requirements will depend on the size and complexity of the Authority's treasury management needs. The Chief Financial Officer will assess whether treasury management staff have the required knowledge and skills to undertake the roles and if those skills have been maintained and are up to date.

4. CAPITAL PRUDENTIAL INDICATORS 2024/25 - 2027/28

4.1 The Prudential Code requires authorities (including the PFCC) to self regulate the affordability, prudence and sustainability of their capital expenditure and borrowing plans, by setting estimates and limits, and by publishing actuals, for a range of Prudential Indicators. It also requires them to ensure their Treasury Management Practices are in accordance with good practice.

4.2 The Code imposes on authorities' clear governance procedures for setting and revising of Prudential Indicators and describes the matters to which an authority will have regard when doing so. This is designed to deliver accountability in taking capital financing, borrowing and Treasury Management decisions. A fundamental provision of the Prudential Code is that over the medium-term net borrowing will only be for a capital purpose.

4.3 The PFCC will approve the Prudential Indicators for a three-year period alongside the annual Revenue Budget/Medium Term Financial Strategy each year. The indicators will be monitored during the year and revisions submitted, as necessary.

The required Prudential Indicators are as follows:

- Capital Expenditure - Actual and Forecasts
- Ratio of Finance Costs to Net Revenue Stream
- Capital Financing Requirement
- Gross Borrowing and the Capital Financing Requirement
- Authorised Limit for External Debt
- Operational Boundary for External Debt
- Actual External Debt

- Maturity Structure of Borrowing
- Total Principal Sums Invested for periods longer than 365 days

4.4 Affordability

The following indicators are required to assess the affordability of the capital investment plans. They provide an indication of the impact of the capital investment plans on overall PFCC finances. The PFCC is requested to approve the following:

4.4.1 Estimates of capital expenditure

This is a prudential indicator for prudence showing the previous year actual and estimates of the total of capital expenditure planned to be incurred during the forthcoming financial year and the following two financial years.

Capital Expenditure	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Capital Expenditure	10,395	12,017	9,169	13,009	9,004
Total Capital Expenditure	**10,395**	**12,017**	**9,169**	**13,009**	**9,004**
Funded By:					
Gross Borrowing	1,911	4,387	2,759	639	1,042
%age of Expenditure funded by Borrowing	18.4%	36.5%	30.1%	4.9%	11.6%

The current plans assume that there will be a recurring requirement to borrow to fund capital expenditure on the Building Estate. While this is prudent in the short and medium term, when the overall level of borrowing in the organisation is low, and interest rates are currently volatile, it is important to ensure that there is a longer-term Estates Strategy to ensure that this remains an affordable strategy going forward.

It is important to recognise that borrowing beyond these levels will incur additional revenue costs and the organisation should think very carefully before doing this.

4.4.2 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream

Financing Costs to Net Revenue Streams	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	£000	£000	£000	£000	£000
Minimum Revenue Provision (MRP)	469	516	626	695	711
Interest Payable on Borrowing	147	147	249	272	308
Interest Receivable	(700)	(1,351)	(1,151)	(895)	(693)
Financing Costs	**(84)**	**(688)**	**(276)**	**72**	**326**
Net Revenue Stream	**184,118**	**194,113**	**200,925**	**208,051**	**215,341**
Ratio %	0.0%	-0.4%	-0.1%	0.0%	0.2%

The ratio of finance costs to net revenue stream is zero or below in the earlier years due to their being more interest earned on investments compared to the cost of the borrowing. In later years the cost of borrowing compared to the net revenue stream remains low.

4.4.3 Estimates of capital financing requirement (CFR)

This is a prudential indicator for prudence and shows the previous year actual and the forecast total capital financing requirement at the end of the forthcoming financial year and the following two years. The CFR is the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It measures the underlying need to borrow for a capital purpose.

It measures the PFCC's underlying need to borrow for capital purposes and ensures that borrowing is only undertaken to fund capital assets and not support revenue expenditure. The Borrowing (both Internal and External) included within the plans increases the Capital Financing Requirement (CFR).

The PFCC is asked to approve the following CFR projections:

Capital Financing Requirement	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	£000	£000	£000	£000	£000
Opening Capital Financing Requirement	**12,578**	**14,020**	**17,890**	**20,023**	**19,967**
Unsupported borrowing to fund Capital Expenditure	1,911	4,387	2,759	639	1,042
Total CFR Base on which MRP is calculated	**14,488**	**18,407**	**20,649**	**20,662**	**21,009**
MRP on Borrowing	(469)	(516)	(626)	(695)	(711)
Total CFR Base for borrowing purposes	**14,020**	**17,890**	**20,023**	**19,967**	**20,298**

The PFCC is required to make a statutory charge to revenue for the repayment of supported debt (the Minimum Revenue Provision) and this reduces the CFR.

4.4.4 The Liability Benchmark

The organisation is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum.

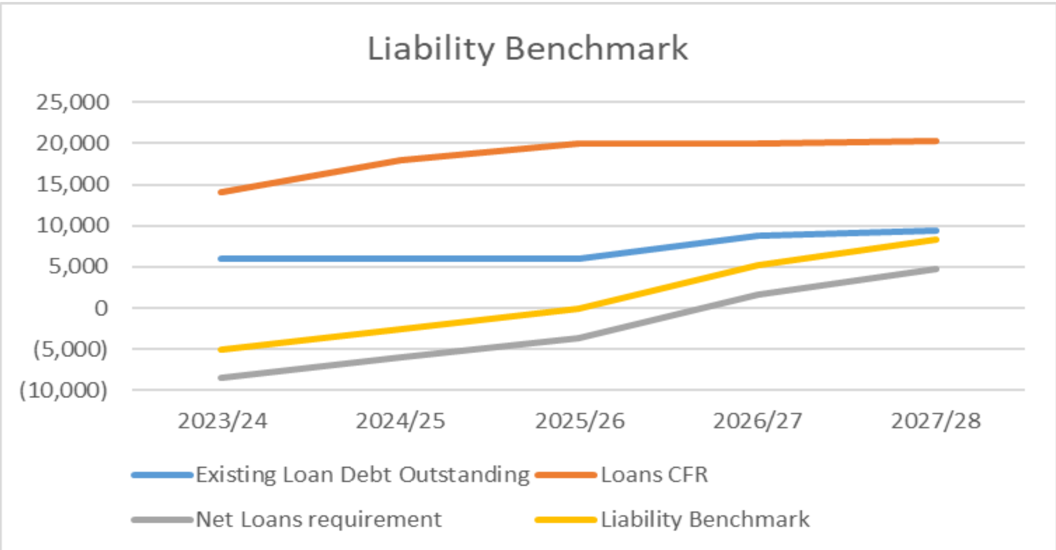
There are four components to the LB: -

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.

2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP. With only approved prudential borrowing being included in the calculation, the Loans CFR will peak after four years where the other inputs are projected forward for 50 years+.

3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance. The short-term liquidity allowance is an adequate (but not excessive) allowance for a level of excess cash to be invested short-term to provide access to liquidity if needed due to short-term cash flow variations, for example.



The Liability benchmark is low due to the high level of investments in comparison to the actual borrowing position, indicating that there is no future borrowing requirement.

4.4.3 Limits to Borrowing Activity

Within the Prudential Indicators there are several indicators to ensure that the PFCC operates its activities within well-defined limits.

For the first of these, the PFCC should ensure that its debt gross does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year, plus the estimate of any additional CFR for 2024/25 and the next two financial years. This allows some flexibility for limited early borrowing for future years, to take advantage of market opportunities and to build in budget uncertainty.

Gross Borrowing and the Capital Financing Requirement (CFR)	2023/24	2024/25	2025/26	2026/27	2027/28
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Debt at 31 March	**6,000**	**6,000**	**6,000**	**8,759**	**9,398**
Total CFR	14,020	17,890	20,023	19,967	20,298
Under / (Over) borrowing	**8,020**	**11,890**	**14,023**	**11,208**	**10,900**

The projected forecasts detailed in the table above show that there is still some margin between the gross borrowing and the CFR and therefore the PFCC is well within the limits required and can be assured that any borrowing that is forecast to be taken out over the coming years would not be to support revenue expenditure.

A further two prudential indicators control or anticipate the overall level of borrowing. These are

4.4.3.1 The **Authorised Limit** represents the legislative limit specified in Section 3 of the Local Government Act 2003. Borrowing beyond this limit is prohibited and therefore would be ultra vires. The provision of temporary borrowing allows for temporary short-term borrowing in year to allow for cash flow movements.

4.4.3.2 The **Operational Boundary** which is based on the probable external debt during the year. It is the affordable debt limit, and is set using the operational boundary, plus scope for borrowing due to an unforeseen cashflow which may be required in the short term during the year, if for instance a large grant payment was delayed.

The PFCC is asked to approve the following limits:

Authorised Limit for External Debt	2023/24	2024/25	2025/26	2026/27	2027/28
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Borrowing	6,000	6,000	6,000	8,759	9,398
Provision for Temporary Borrowing	3,000	3,000	3,000	3,000	3,000
	9,000	**9,000**	**9,000**	**11,759**	**12,398**

Operational Boundary for External Debt	2023/24	2024/25	2025/26	2026/27	2027/28
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Borrowing	6,000	6,000	6,000	8,759	9,398
Provision for Temporary Borrowing	0	0	0	0	0
	6,000	**6,000**	**6,000**	**8,759**	**9,398**

The operational boundary is set at the same level as the estimate for external borrowing as the organisation holds readily available cash balances that could be used for unforeseen cash outflows, therefore no additional scope for borrowing has been included.

4.4.3.3 **Actual External Debt**

Actual External debt	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Borrowing	**6,000**	**6,000**	**6,000**	**7,811**	**9,506**

4.5 Treasury Management Indicators

The purpose of these is to contain the activity of the Treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the PCC's overall financial position. The PFCC is asked to approve the indicators below:

4.5.1 Maturity Structure of Debt

These gross limits are set to reduce the PFCC's exposure to large-fixed rate sums falling due for re-financing within a short timeframe. Upper and lower limits are required which the PFCC is asked to approve.

Maturity Structure of Debt	2022/23		2023/24		2024/25		2025/26		2026/27		2027/28	
	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0%	50%	0%	50%	0%	50%	0%	50%	0%	50%	0%	50%
Over 12 months and under 2 years	0%	50%	0%	50%	0%	50%	0%	50%	0%	50%	0%	50%
Over 2 years and under 5 years	0%	50%	0%	50%	0%	50%	0%	50%	0%	50%	0%	50%
Over 5 years and under 10 years	0%	75%	0%	75%	0%	75%	0%	75%	0%	75%	0%	75%
Over 10 years	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%

As the PFCC moves into a position of having more external debt then it becomes important to consider the timeframes under which these loans are taken out, when they will be re-paid and how this aligns with other debt repayments to ensure that all loans don't fall due for repayment at the same time or require re-financing at the same time, when interest rates might be higher than long term averages.

4.5.2 Upper Limit for Sums Invested for a Period of over 364 days

This indicator sets a limit on the level of investments that can be made for more than 364 days. The PFCC does not provide approval to invest beyond a 1-year period and at this stage it is not currently proposed to change this proposal.

5. BORROWING STRATEGY 2024/25

5.1 The main strategy for undertaking new borrowing continues to be to take advantage of the lowest rates consistent with prudent asset management.

5.2 In practical terms, the policy of the Authority is to finance capital expenditure on Estates by borrowing (from the Public Works Loan Board or the money markets), on average, over periods which reflect the life of the Authority's assets, or other appropriate periods.

5.3 The strategy also focuses on borrowing over periods where there is no concentration of debt so to achieve a balanced spread in the Authority's debt maturity profile.

5. ANNUAL INVESTMENT STRATEGY 2024/25

5.1 The proposed Annual Investment Strategy for 2024/2025 is attached at Appendix A.

5.2 <u>Returns on Investments</u>
While returns on investments are of secondary importance to the security of the sums invested, it is still important to consider the potential impact of approving the Investment Strategy put forward. The limited number of counterparties on our list previously has restricted the returns, in the form of interest receivable, which the PFCC could make. It is proposed within the Investment Strategy that fewer restrictions are put in place, but not at expense of taking unnecessary risks.

5.3 Current interest rate forecasts in January 2024 are as follows:

	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.80	4.30	3.80	3.30	3.20	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.60	4.10	3.70	3.20	3.20	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

* PWLB Rates are shown net of 0.2% discount at the certainty rate

These rates reflect a view that the Monetary Policy Committee (MPC) would be keen to further demonstrate its anti-inflation position by keeping Bank Rate at 5.25% until at least the second half of 2024. Rate cuts are expected to start when both the CPI inflation and wage/employment data are supportive of such a move.

The overall UK economy has entered a mild recession with GDP contracting by 0.3% in Q4 2023 and 0.1% in Q3 2023, where two quarters is the official definition of a recession.

Naturally, timing on the cutting of interest rates remain a fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

In the upcoming months, forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

Long-term (beyond 10 years) forecast for Bank Rate has increased to 3.00%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed Local Authority monies should be considered. Temporary borrowing rates remain elevated for some time to come but may prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2024. It is not the intention that the organisation borrows externally in the foreseeable future.

5.4 The Chief Finance Officer continues to monitor this situation closely throughout the year to determine whether at any stage, money market loans are more appropriate and advantageous to the Authority than PWLB loans. To date, all Authority borrowing is with PWLB.

5.5 Counterparty Limits

As per the strategy in Appendix A, limits for specified counterparties are:

- The maximum investment with any counterparty is £15 million.
- The maximum investment in any one group (i.e. a bank and its wholly owned subsidiaries) is £20 million.
- Investments made directly with the UK Government through the Debt Management Officer (DMO) have an uncapped 'limit'.

There is no limit for DMO investments as this is as close to zero risk that can be achieved in the investment of public money. The organisation will always prioritise the security of capital and liquidity of funds whilst taking the opportunity to achieve the best return possible where an uncapped 'limit' with the DMO should provide greater scope for investments at a reduced/lower risk.

5.6 For non-specified counterparties these are:

- The maximum investment with any counterparty is £10 million.
- The maximum investment in any one group (i.e. a bank and its wholly owned subsidiaries) is £15 million.

6. Implications

6.1 Finance

There are no financial implications arising from this report that is not included above.

6.2 Diversity & Equal Opportunities

There are no issues arising from this report to bring to the PFCC's attention.

6.3 Human Rights Act

There are no Human Rights Act implications arising from this report.

6.4 Sustainability

This report is part of the process to establish sustainable annual and medium-term financial plans and maintain prudent financial management.

6.5 Risk

The investment strategy put forward seeks to minimise the risks of the PFCC while ensuring that the cash balances of the PFCC are managed in line with proper practice and to ensure funds are available to make payments at the correct time.

7. Conclusions

7.1 To comply with the CIPFA Prudential Code of Practice and Treasury Management Code of Practice the PFCC is required to set prudential Indicators for a three-year period alongside the annual Revenue Budget/Medium Term Financial Strategy each year.

7.2 The CIPFA code does not set benchmark indicators. Each organisation must use its judgement when setting indicators.

7.3 Based on the indicators proposed above, the revenue budget, capital programme and associated financing are within prudent limits.

7.4 A prudent Investment Strategy has been put forward for approval that seeks to firstly secure the money being invested before secondly looking at rates of return.

Michael Porter
CFO for the PFCC

APPENDIX A

Annual Investment Strategy

The Commissioner will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Commissioner's investment priorities are:

- the security of capital; and
- the liquidity of its investments.

The Commissioner will also aim to achieve the optimum return on investments commensurate with proper levels of security and liquidity. The Commissioner's risk appetite is low to give priority to security of investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Commissioner will not engage in such activity.

Investment instruments are identified as either 'Specified' or 'Non-Specified' Investments. The Commissioner's available instruments are listed in the paragraph below. Counterparty limits will be as set through the Treasury Management Practices.

Limits and Definition of Specified Investments

It is proposed that the Annual Investment Strategy for 2024/25 is based upon the use of the "specified" investments listed below:

- The investment is made with the UK Government or a Local Authority (as defined in the Local Government Act 2003).
- The investment is made with a Money Market Fund which, at the time the investment is made, has been awarded the highest credit rating, (AAA), by a credit rating agency.
- The investment is made with the PFCC's own bank.
- The investment is made with a Nationalised Bank or Building Society
- The investment is made with a Bank or Building Society that is part owned by the UK Government

Where officers become aware of a revision of a body's rating the body should be removed from the list of Specified Investments.

All Specified Investments must be denominated in sterling and must be one where the PFCC may require it to be repaid or redeemed within 12 months of the date on which the investment is made. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

  - The maximum investment with any counterparty is £15 million.
  - The maximum investment in any one group (i.e. a bank and its wholly owned subsidiaries) is £20 million.
  - Investments made directly with the UK Government through the Debt Management Officer (DMO) have an uncapped 'limit'.

There is no limit for DMO investments as this is as close to zero risk that can be achieved in the investment of public money. The organisation will always prioritise the security of capital and liquidity of funds whilst taking the opportunity to achieve the best return possible where an uncapped 'limit' with the DMO should provide greater scope for investments at a reduced/lower risk.

Limits and Definition of Non-Specified Investments

These are any other type of investment (i.e. not defined as specified above).

All Non-Specified Investments must be denominated in sterling. The PFCC has determined that it will only use approved counterparties within the UK. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The maximum investment with any counterparty is £10 million.
- The maximum investment in any one group (i.e. a bank and its wholly owned subsidiaries) is £15 million.

APPENDIX B

CAPITAL STRATEGY

INTRODUCTION

The Capital strategy is part of the Police, Fire and Crime Commissioner (PFCC)'s Corporate Planning Strategy. It provides a mechanism by which the capital investment and financing decisions can be aligned over the short, medium, and long term.

The strategy sets the framework for all aspects of the PFCC's capital and investment expenditure. This includes planning, outcomes, prioritisation, management, funding, and repayment. This strategy has direct links to the other plans of the PFCC such as the Estates Strategy and Digital/ICT Strategy and forms a key part of the Medium-Term Financial Plan (MTFP) and the Treasury Management Policy. This strategy should be read in conjunction with the Treasury Management Policy and Annual Investment Strategy.

The operation of all of these strategies and plans is underpinned by the Code of Corporate Governance and aligns with the Financial Regulations and Standing Orders.

The strategy will be updated and approved annually by the PFCC.

OBJECTIVES

The key aims of the Capital Strategy are;

- To provide a clear set of objectives and a framework within statutory legislation that requires new capital expenditure to be evaluated to ensure that all new capital investment is targeted at meeting the priorities that the PFCC has set out in the Police, Fire and Crime Plan.
- Set out how the PFCC identifies, programmes, and prioritises capital requirements and proposals.
- Consider the options available for funding of capital expenditure and how resources may be maximised to generate investment in the area and to determine an affordable and sustainable funding policy framework whilst minimising the revenue implications of such schemes.
- Identify the resources available for capital investment over the planning period of the MTFP.
- Establish effective arrangements for the management of capital expenditure including the assessment of project outcomes, budget profiling, deliverability, value for money and security of investment.
- Deliver projects that focus on delivering the long-term benefits of Policing as detailed in the Police, Fire and Crime Plan.

GOVERNANCE OF THE CAPITAL PROGRAMME

Governance processes are in place and follow Financial Regulations and Standing Orders to ensure that the resources are allocated optimally and deliver value for money.

The capital programme is determined from consultation with stakeholders and in parallel with the revenue budget planning process and the development of the MTFP. These processes include:

- The approval of the Capital Strategy, Capital Plan, Annual Investment Strategy and Treasury Management Policy by the PFCC.
- These policies, plans and strategies being published on the PFCC website as Decision Notices.
- Scrutiny of the Decision Notices by the Police and Crime Panel.

Any new capital project is subject to thorough evaluation which includes:

- A business case, resources and finance request submitted to the Change Board which includes the details of the scheme, estimated costs and income, staffing implications, benefits of change and other impacts. These will be appraised by the Board and recommendations made to the Executive Board as needed.
- Subject to the proposal being approved by the Executive Board, the business case will be reported to the PFCC, and a decision notice signed and published by the PFCC as required.
- Quarterly monitoring reports will be submitted to the PFCC at the Executive Board by the Chief Financial Officer and reported quarterly to the PFCC at the Executive Board. These reports will show spending to date and compare projected expenditure to approved budgets. The reports will identify the changes to the capital programme to reflect:
    - New resource allocations
    - Slippage in programme delivery
    - Programmes reduced or removed
    - Virements between schemes and programmes to maximise delivery
    - Revisions to spending profiles and funding to ensure ongoing revenue costs are minimised.

Depending on the size of the project, a programme board may be set up with the key stakeholders to manage and take the project forward and to identify any risks which may affect the project or the organisation. Any risks deemed high for the organisation will be taken to the Risk Board. All projects are required to follow contract standing order requirements and procurement processes.

CAPITAL PRIORITIES

The capital strategy recognises that the financial resources that are available to the PFCC are constrained. The PFCC must therefore seek ways to ensure that investment decisions meet the objectives of the Police, Fire and Crime Plan and are within the limited resources available. The strategy is required to deliver policing in line with the PFCC's vision and the capital plan is built on the emerging themes arising from the Force's Estates, Digital/ICT and Fleet strategies.

The assets owned by the PFCC are vital for the delivery of the Police, Fire and Crime Plan and the capital priorities are for sufficient funding to renew the asset base of the organisation, informed by condition deficiency surveys, 'fit for purpose' reviews, equipment replacement programmes, business continuity requirements and invest to save decisions.

FUNDING APPROACH

The PFCC's capital investment falls within and is required to comply with the 'Prudential Code for Capital Finance in Local Authorities 2017' (the Code). Under the Code, the PFCC has greater discretion over the funding of capital expenditure especially with the freedom to determine, within the regulatory framework of the Code, the level of borrowing they wish to undertake to deliver the capital plans and programme.

There are a range of potential funding sources which can be generated locally either by the PFCC or in partnership with others. The PFCC continues to seek new levels of investment to match against the capital programme and may include additional receipts from land sales, developer opportunities and joint funding opportunities.

This strategy which informs the MTFP is intended to maximise the financial resources available for investment in service provision and improvement within the framework of the MTFP whilst ensuring that each business case has a robust self-sustaining financial model that delivers on the wider outcome of the strategy.

The main sources of capital funding are:

1. Central government
    a. Specific grant allocations- grants are allocated in relation to specific programmes or projects and the PFCC will seek to maximise this to address priority needs in policing
    b. The PFCC will continue to bid for future resource allocations as they become available.
2. Internal Balances
    a. Interest rates over recent years have remained low and therefore external borrowing has been prudent, but interest rates are likely to increase in future years. Internal borrowing can be used to support the capital programme when the financial position of the PCC allows for this.
3. Capital receipts

   a. Receipts that have been obtained from the sale of property, plant and equipment and are available only for the funding of capital schemes.

4. Reserves
   a. Any funding that has been allocated in a specific year but is not required until future years will be carried forward in an earmarked reserve. These reserves will vary from year to year depending upon the level of funding available and the timing of projects.
   b. Reserves can be created from most funding sources (Direct Revenue Funding, Grants, Receipts and Insurance receipts and reserves).
   c. Working with other public sector bodies and partners may bring additional opportunities for securing additional funding and this should be undertaken whenever possible.
5. Investment
   a. The PFCC will continue to work with the investors to utilise redundant assets and vacant land to bring them to a useful economic purpose. Capital receipts from the disposal of assets represent a finite source of funding and it is important that a planned and structured manner of disposals is created to support the priorities of the PFCC. Cash receipts from the disposal of surplus assets are to be used to fund new capital investment or to offset future debt or transitional costs.
   b. The PFCC will continue to work with other partners and agencies to consider projects that are mutually beneficial to the development of policing in North Yorkshire.
   c. Various mechanisms provide opportunities to enhance the PFCC's investment potential with support and contributions from other third parties and local strategic partners. They may range from commissioning/facilitating others to develop services in policing.
6. Revenue
   a. Capital expenditure may be funded directly from revenue (Direct Revenue Funding). In addition to specific revenue funds that have previously been set aside as earmarked reserves, capital expenditure may be funded by specific revenue budget provision.

BORROWING AND LEASING

Under the Prudential Code, the PFCC has discretion to undertake borrowing to fund capital projects with the full cost of the borrowing being funded from project returns or from revenue.

This discretion is subject to the PFCC complying with the Code's framework which requires any such borrowing to be prudent, affordable, and sustainable. Prudential borrowing does provide an option for funding additional capital projects, but this must be funded each year from within the revenue budget or from generating additional ongoing longer term income streams.

The PFCC will test the Prudential Indicators annually as part of the MTFP process and report upon the progress when setting the future Prudential Indicators.

BALANCED PORTFOLIO APROACH

Resources will be allocated to programmes based upon asset values to manage the long-term yield and revenue implications. Capital receipts will be focussed on those assets with a short-term life span and the unsupported borrowing on long term assets. Surplus receipts will be assigned to finance the capital programme in the most economic way to ensure the minimum impact on the revenue budget in relation to the Minimum Revenue Provision (MRP) as informed by the MTFP.

All capital schemes need to reflect the full development purchase costs including property taxes and fees. Business cases will include all lifetime costs (both revenue and capital) and income proposals. Where necessary, specialist advice is to be taken, particularly around VAT and other taxes.

The capital programme will include financing detail and an appropriate cash flow.

Debt funding can range from short term cash flow support through to longer term funding linked to assets. Interest rates will be sought which are the best available and are required to reflect the appropriate legislation.

MINIMUM REVENUE PROVISION (MRP) POLICY

Minimum Revenue Provision (MRP) is the annual revenue provision that authorities which are not debt free, must make in respect of their debts and credit liabilities. MRP aims to provide transparency as to the cost to the PCC of taking on new borrowing. The requirement to make MRP has existed since 1990.

Under the Local Authorities (Capital Financing and Accounting) (Amendment) (England) regulations (fourth edition)2018, the current arrangements for calculating MRP as specified in the 2007 and 2003 regulations have been superseded. The regulations place a duty on local authorities to make a MRP which is considered to be prudent, with the calculations no longer being in force in statute the four options in the statutory guidance are recommended; there is no definition of prudent provision. The responsibility is placed on the PCC to approve the Annual MRP strategy.

The regulations require that an annual MRP strategy be adopted by the PCC prior to the start of the financial year to which it applies. The PCC can change the method of calculating the MRP on an annual basis in line with guidance. Once a method has been approved for a particular year, any assets purchased through borrowing that year must continue to have MRP charged in the same way.

For borrowing at 1 April 2008 and supported borrowing after this date, the regulatory method option 1 is to be applied. This is calculated at 4% of the total Capital Financing Requirement less Adjustment A. For unsupported borrowing after 1 April 2008, the asset life method, option 3, is applied. The MRP for each asset acquired through unsupported borrowing is calculated by taking the unsupported borrowing on the asset less the MRP already made against the asset and then divided by the remaining useful life of the asset.

For Finance Leases, MRP will also be equivalent to the capital repayment (principal) element of the annual rental payable under the lease agreement.

MRP Overpayments - Under the MRP Guidance any charges made in excess of the statutory MRP are known as Voluntary Revenue Provision (VRP). VRP can be reclaimed in later years if deemed necessary or prudent. For these sums to be reclaimed in future, this policy must disclose the cumulative overpayment made each year. Up to 31st March 2023, no VRP overpayments have been made.

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